

William B. Ruger Chair  
of National Security Economics Papers

## **A Nation at War: Reconciling**

# Ends & Means



Naval War College Intersessional Conference  
Newport, Rhode Island  
7-8 March 2005

Number 1

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# **William B. Ruger Chair of National Security Economics Papers**

**Number 1**

## **A Nation at War: Reconciling Ends and Means**

Proceedings  
Naval War College Intersessional Conference  
Newport, Rhode Island  
7–8 March 2005

Richmond M. Lloyd, editor  
William B. Ruger Chair of National Security Economics



Naval War College  
Newport, Rhode Island

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# Agenda

## Intersessional Conference

### A Nation at War: Reconciling Ends and Means March 7–8, 2005

#### Monday, 7 March

0815 Convene in Spruance Auditorium

*Dr. Richmond M. Lloyd,  
William B. Ruger Chair of National Security Economics, NWC*

0830 Welcome and Opening Remarks

*Rear Admiral Jacob L. Shuford, USN, President, Naval War College*

0845 Global Challenges and Choices

*Dr. Richard N. Cooper, Maurits C. Boas Professor of International  
Economics, Harvard University*

0945 Break

1000 Panel I—Competing National Priorities: Strategic and Resource Choices

*Dr. J. Michael Gilmore, Assistant Director for National Security,  
Congressional Budget Office*

*Mr. C. Lawrence Greenwood, Deputy Assistant Secretary,  
International Finance and Development,  
Bureau of Economic and Business Affairs, Department of State*

*Dr. Andrew L. Ross, Research Professor,  
Strategic Research Department, NWC*

Moderator:  
*Dr. Richmond M. Lloyd*

1130 Lunch

1300 Confronting the Challenges to National Security

*Mr. Walter Russell Mead, Henry A. Kissinger Senior Fellow in  
U.S. Foreign Policy, Council on Foreign Relations*

1400 Break

1415 Panel II—Global War on Terrorism, Homeland Security, Defense, and Intelligence

*Dr. James Jay Carafano, Senior Research Fellow, Defense and Homeland Security, Davis Institute, The Heritage Foundation*

*Dr. David H. McIntyre, Director, Integrative Center for Homeland Security, Texas A&M University*

*Dr. Carnes Lord, Professor of Military and Naval Strategy, Center for Naval Warfare Studies, NWC*

Moderator:

*Dr. Thomas Nichols, Chairman, Strategy and Policy Department, NWC*

1545 Break

1600 Seminar Session

1700 Adjourn

## **Tuesday, 8 March**

0830 Reconvene in Spruance Auditorium

*Dr. Richmond M. Lloyd*

0835 2005 Quadrennial Defense Review: Taking Stock and a Way Ahead

*Ms. Michèle A. Flournoy, Senior Advisor, International Security Program, Center for Strategic and International Studies*

0945 Break

1000 Panel III—2005 Quadrennial Defense Review: Issues and Options

*Mr. Steven Kosiak, Director of Budget Studies, Center for Strategic and Budgetary Assessments*

*Dr. Michael E. O'Hanlon, Senior Fellow in Foreign Policy Studies, The Brookings Institution*

*Mr. Ronald O'Rourke, Naval Analyst, Congressional Research Service of the Library of Congress*

Moderator:

*Dr. Kenneth Watman, Dean, Center for Naval Warfare Studies, NWC*

1130 Closing Remarks

*Rear Admiral Jacob L. Shuford, USN, President, Naval War College*

1145 Adjourn



# Opening Remarks

**Dr. Richmond M. Lloyd**

**William B. Ruger Chair of National Security Economics**

Good morning, ladies and gentlemen. On behalf of the Naval War College, we welcome you to our March Intersessional Conference.

We are especially honored by the presence of over 100 guests who are joining us from across the country.

We wish to express our appreciation to the Naval War College Foundation (85 members are here today), through the generosity of the William B. Ruger Chair of National Security Economics, for the financial support in the preparation and presentation of this conference.

“The premise of the William B. Ruger Chair is that national security and economic prosperity are inextricably linked. To secure its existence in the international system, a state must make strategic choices in both peace and war. To implement a strategy, the state must have access to adequate economic resources. Ultimately, it is impossible to separate economic power and political power. Whatever enhances the commercial, financial, and industrial power of a state increases the military potential of that state. Thus, there is a compelling and reciprocal relationship between economic prosperity and military power. But the reverse is also true. Economic well-being and prosperity do not occur in a vacuum. As Thomas Hobbes observed, there is no production without security. Insofar as military forces provide security, they underwrite prosperity.”<sup>1</sup>

The primary focus of the William B. Ruger Chair of National Security Economics is to support research and study of the interrelationships between economics and national security.

Thus, it is only fitting that the first Naval War College conference supported by this chair should focus on a most timely and very important theme: A Nation at War: Reconciling Ends and Means.

We are at war. We are fighting the global war on terrorism, conducting counterinsurgency and stability operations in Iraq and Afghanistan, and protecting the U.S. homeland from direct attack. These operations come at considerable cost. Last October, Steven Kosiak, one of our panelists for tomorrow, estimated that since 9-11, over \$500 billion has been spent over and above inflation-adjusted budgets on the war on terrorism, homeland security, and defense. About half of this is very large supplemental appropriations to conduct our war efforts. The proposed defense budget for FY06 is before the Congress at \$419 billion, a 41 percent increase over the 2001 proposed Clinton budget. And the FYDP calls for annual increases of about \$20 billion.

We have not just added more resources, but also we have adjusted our national security strategy, conducted a Quadrennial Defense Review in 2001, explored operational concepts to meet operational challenges, and have changed organizations to better align with our strategy to meet the challenges to our national security. For example, we stood up a new Department of Homeland Security combining over 22 agencies, and very recently we have established a new National Intelligence Director.

While our economy is growing, we have been spending more than we produce to meet our competing national priorities. Due to low national savings, we have been borrowing, especially

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1. Description and purpose of the William B. Ruger Chair of National Security Economics, October 15, 2002.

from abroad, which aggravates our trade deficit. Federal budget trends, which a few years ago forecasted budget surpluses, now project increasing budget deficits. We also are aware that beginning in the 2010 decade significant numbers of our population will be placing increasing demands on the Social Security and Medicare programs.

Thus, it is most timely that we as a nation take stock of where we are today. How have we done in meeting our competing national priorities? Where should we be heading for the future? Are our ends and means aligned, or do we need to make adjustments? Do we have our strategy right and our resources properly allocated to implement our strategy?

We will approach the issue of reconciling ends and means in a top-down fashion with three sets of speakers and panels. The speaker and panel for this morning will focus on Competing National Priorities: Strategic and Resource Choices at the federal budget level. This afternoon the speaker and panel will address Confronting Challenges to National Security and, specifically, the global war on terrorism, homeland security, defense, and intelligence at the interagency level.

We will conclude the conference this afternoon with a seminar that is intended to provide an opportunity for our guests and students to continue a strategic conversation.

Tomorrow morning our speaker and panel will focus on the 2005 Quadrennial Defense Review, which is currently underway. They will explore what they consider to be the issues and options that should be addressed within the Department of Defense.

We ask that when asking a question or making a comment, you use the microphone on the back of the seat in front of you. We will not be able to hear your question if you do not use the microphone, and we also are recording the entire conference.

All outside guests will be provided with a monograph of the conference proceedings at a later date.

It is now my pleasure to turn the podium over to Rear Admiral Jacob Shuford, President, Naval War College.

# Opening Remarks

## Rear Admiral Jacob L. Shuford, USN President, Naval War College

Good morning. It is a real pleasure to welcome our many distinguished guests, our students, and our faculty to what I am sure will be a very thought-provoking conference. Whenever the entire college community fills this great hall, I feel energized and empowered by the tremendous intellectual capital in the room!

When I speak of the greater college community, I include, of course, the members of the Naval War College Foundation, who selflessly contribute their time, effort, and resources to help us achieve our corporate strategic goals. This conference is a particularly good example of the role our Foundation plays in enabling our good work. Dr. Rich Lloyd, the conference director, is the chair holder of the William B. Ruger Chair of National Security Economics.

This chair was fully endowed last year by the estate of the late William B. Ruger, Sr., the founder and chairman of Sturm, Ruger & Company, the largest firearms manufacturer in the United States. [Photo of Ruger on screen] A legend in American industry, Bill Ruger is widely recognized as one of America's greatest gun designers, and he had a hand in the original design and time-honored styling of every firearm his company produced for over a half-century. He continued to work on new creations up until his death in July 2002, at the age of 86.



*William B. Ruger, Sr.  
Used by permission*

According to firearms historian R. L. Wilson, "Ruger was a true firearms genius who mastered the disciplines of inventing, designing, engineering, manufacturing, and marketing better than anyone since Samuel Colt. No one in the twentieth century so clearly dominated the field."

Mr. Ruger's association with, and strong support for, the Naval War College goes back many years. He was a Founder Member of the Naval War College Foundation, joining in 1972 as one of 176 inaugural members. Four years later, Sturm, Ruger & Company became one of the Foundation's earliest Corporate Members and remains a Corporate Member today. Bill Sr. served as a

Trustee of the Foundation from 1980–1987 and is one of only twenty members to receive the Foundation's highest recognition, the Meritorious Service Award.

Endowing this National Security Economics Chair is a significant commitment, and it represents the largest gift ever received by the Naval War College Foundation. This gift has forever changed the Naval War College by providing the first fully funded academic chair that will exist in perpetuity; and this conference is the first of many academic events and research projects planned with the intent of impacting on the strategic conversation of the Navy on a broad range of topics. . . . To fuel the debate, and to create new knowledge! This goal is realistic because of the generosity and foresight of Bill Ruger.

Let us turn now to the event at hand. I can think of no topic that has more relevance for our nation, at this point in time, than the issue of reconciling the ends we hope to achieve and the means that we must apply to the effort. America is at war, with a vicious and determined enemy. Certainly all of us in this room, and most of our fellow citizens, are painfully aware of the tremendous cost, in blood and treasure, of the Global War on Terrorism. America is,

unquestionably, a very wealthy nation. This wealth has been accumulated through two centuries of hard work and good investment, and it is one product of a free and democratic society. A share of this wealth, in the form of taxes, is allocated by our government leaders to address the common needs of the population, not the least of which is national security. However, national security is but *one* of many expenses that must be funded by the federal budget. Which brings us to the heart of the issue for this conference, and to the subject of the great national debate which is now—more than usual—filling the halls of Congress, on campuses across the country, and even in local diners in Middle America. What are the broad political, economic, and security issues that must be considered when establishing the priorities for allocating the substantial, but certainly not unlimited, resources of the country? Similar discussions have occurred before, and we have all probably been involved in impromptu “guns-versus-butter” debates in the past. What we hope to do over the next two days is to raise the level of the debate with the help of some of the world’s experts on the complex issues that underpin the arguments. You will have the opportunity to listen to knowledgeable speakers, to engage with noted panelists, and discuss the proceedings in small-seminar format. I encourage you to stay engaged, to ask the tough questions, and to challenge the conventional wisdom.

I know some of the students in the audience are down to the point where they have calculated the numbers of hours remaining until graduation. What a fitting capstone piece this conference is to the finest education of its type in the world!

# Global Challenges and Choices

**Dr. Richard N. Cooper**  
**Maurits C. Boas Professor of**  
**International Economics, Harvard University**



Thank you very much for that kind introduction. I'm pleased to be here. Until a few days ago, I was on your program as a panelist. I was asked only recently to open the conference, because my boss, Larry Summers, was unable to come. He's otherwise occupied. I have little doubt that he would prefer to be here this morning than doing what he's doing.

I take it my task is to provide an overall economic context for the deliberations which you will have during the next couple of days, to provide therefore some comments

on the American economy in a global setting that set the backdrop for the choices that will have to be made in the coming years.

Let me start out by saying that I am extremely high on the American economy. To use a nineteenth-century term from Henry Adams, the U.S. economy is a dynamo. In its most fundamental dimensions, by which I mean its innovative capacity and its capacity for adjustment or adaptation to changes and shocks, it is unrivaled. I'm not a scientific specialist, but I try to pay attention to what's happening. As I see it, in area after area the innovation pipeline is simply full for the next decade or two. It's hard to tell what will happen after that—one new idea after another tumbling out of the laboratories and the classrooms and into the marketplace and improving people's lives in the next generation, not only in this country but around the world. And its high capacity to adapt to shocks big and small: the financial system lost hardly a beat after 9/11 and the collapse of the Twin Towers in Manhattan. It took the airline industry longer to recover, because that affected demand for travel. Other shocks: three years ago, oil was priced under twenty dollars a barrel. Now it's over fifty dollars a barrel. We complain about it, properly, but we are in the process of adapting to it. So at the fundamental level, to say the American economy is in good shape is a serious understatement. It is, as I say, to use Henry Adams's term, a dynamo—a very robust economy.

At the same time, we have some problems. By conventional standards, Americans are living beyond their means. In the year 2004 they spent 5 percent more for all things than they produced. And that came to a total of around 600 billion dollars, a little more than 5 percent of our gross domestic product, which I'm going to refer to frequently as GDP. I assume you all know that is the economist's standard measure of the total output of any national economy. Furthermore, this is not a new phenomenon. Americans have been living beyond their means for the last twenty years, since the early 1980s, although not on the scale of last year.

How can that be? How can a country spend more than it is producing for two decades, with no end in sight? The answer is that the rest of the world is providing the difference. Indeed, the six

hundred billion dollars to which I referred is what economists call the current account deficit of the United States. That's the sum of all of our imports of goods and services and the payments we make to foreigners on their investments in the United States, less our exports of goods and services and the earnings that Americans receive on their investments abroad: the current account deficit. How can it last for so long? A deficit of over \$100 billion a year for well over a decade, and now over \$600 billion. And the answer is that Americans pay for this excess spending by selling paper claims on the U.S. economy: stocks, bonds, real estate titles, even greenbacks.

How long can it go on, this process of selling claims on the United States? The answer to that is, we do not know. Many people, including Pete Peterson—I know that you got his *Foreign Affairs* article in your readings—claim that it is unsustainable. The current situation is unsustainable. As Herb Stein, the chairman of the Council of Economic Advisors under President Nixon, once said, if something is unsustainable, it will stop. But how will it stop? Pete Peterson says in his article that almost all economists believe that it's unsustainable. I think that I am responsible for that qualifier, "almost." And I want to come back to the question of sustainability, because I am of a different view from the majority. I think that it is sustainable. I want to distinguish sustainability from desirability. Those are two different concepts. But I will come back to that.

Before I come back to the current account deficit, I want to talk about another way in which Americans are living beyond their means, and that has to do with the federal government. The budget deficit for fiscal '04, the year just closed last September 30th, was \$412 billion. It would have been even larger—\$570 billion—if the off-budget Social Security surplus were not counted as part of the comprehensive unified budget. And this budget deficit is projected to continue, not quite on this scale, but for many years in the future. For example, our Congressional Budget Office has just done a ten-year projection of President Bush's submitted budget for the next fiscal year, '06. CBO calculates that there will be a cumulative deficit over the next ten years—which is the horizon of their forecast, out to the year 2015—of 2.6 trillion dollars. That's the federal government budget deficit. That means the government is spending more than its revenues, and, like Americans in their relationship with the rest of the world, the government is covering the difference by selling paper claims, treasury bills and bonds, which add to the outstanding public debt and have both to be serviced in the future and have to be eventually either repaid or continually rolled over in the future. The 2.6 trillion dollars that I've mentioned does not include privatization of Social Security, which would add another x, where x is a large number, probably seven hundred or eight hundred billion dollars. We don't know because we have not yet seen a concrete proposal. I will come back to the Social Security issue later in my remarks.

Now, people talk about the twin deficits, the current account deficit—that's our relations as a country with the rest of the world—on the one hand and the budget deficit, the federal budget deficit, as if they were inevitably paired. And indeed there is an accounting relationship between them in the national accounts, the GDP accounts of the country. But the accounting relationship between them is a very loose one. Not so many years ago, in '98, '99, in the year 2000, the federal government was actually running a surplus in its accounts, and yet we had then a large and rising current account deficit. So while there is a relationship between the budget deficit and the current account deficit, it is by no means automatic or one-to-one.

Let me talk, then, briefly about the sustainability of the current account deficit, a few words about its desirability, and then come back to its link to the budget deficit and the budget outlook.

I am by background and training and inclination an international economist. So I like to do things that Americans don't normally do, which is to look at the U.S. from a rest-of-the-world perspective, or at least try, as far as an American can do that. And so I ask how this big U.S. current account deficit looks from the rest-of-the-world point of view.



Let me say first that this number dominates the world economy at the present time. It is possible, although not in fact the case, that every other country in the world could have a surplus in its international accounts, the U.S. deficit is so large. In fact, a few other rich countries—Britain, Australia, New Zealand, all Anglo-Saxon in origin—and some very poor countries have current account deficits also. Most other countries in the world have surpluses. But just because something is big and unprecedented is not the same as being unsustainable. I want to look at the question of “unsustainability.”

Savings in the world outside the United States these days is around seven trillion dollars and rising, of course, from year to year as the world economy grows. The United States accounts for someplace between 25 percent and 33 percent of the world’s output. It depends on where exchange rates are at the moment, but roughly a quarter to a third of the world economy is in the United States. It is, as I’ve suggested, a very robust economy. Furthermore, about half of the marketable financial assets—stocks and bonds—are in the U.S. market. In a world that is globalizing as rapidly as our journalists tell us it is, I ask the question, is it inconceivable that from now and indefinitely into the future foreigners would want to put 10 percent of their savings into the U.S. economy, which, as I say, is between a quarter and a third of world output and half of liquid financial assets, stocks, and bonds?

Furthermore, the U.S. provides high rates of return in real terms to capital compared to the other rich parts of the world, Europe and Japan, and returns that are both more reliable—not always higher, but more reliable—and certainly more secure than returns to investment in many of the emerging markets of the world, where property rights are not well established. We’ve just seen an example recently in Russia, where a productive oil enterprise has been cut up and sold arbitrarily, it seems, by the government. Argentina is insisting on only partial payment on its defaulted bonds. One can find less prominent examples in other countries.

The question that I just posed—is it inconceivable that foreigners would want to put 10 percent or let’s say 15 percent—because Americans are also investing some abroad—of their savings into the United States, whether they’re sitting in Sidney or Buenos Aires or Zurich or Singapore or wherever you are in the world? My answer to that question is no. It’s not inconceivable at all.

Indeed, when you allow for the fact that the two biggest countries of the world in population—China and India, both of which are growing at handsome rates these days and with high savings rates in both countries, especially in China—both of those countries maintain tight exchange controls on their residents. Their residents are not free to invest abroad without permission from their authorities. As one looks out five to fifteen years, gradual relaxation of the exchange controls in those countries—many newly well-to-do Chinese, many newly well-to-do Indians, would welcome the opportunity to put some small but significant fraction of their wealth into the U.S. economy, assuming the U.S. economy continues to be robust over this period of time.

So my conclusion is that this deficit, even though it is unprecedentedly large and indeed a dominant feature of the world economy, is not unsustainable. These savings are going to grow. The desire to invest in the U.S. economy, I believe, will also continue to grow.

There’s another side of it, which has to do with the technicalities of debt dynamics within the United States. The counterpart of our current account deficit is foreigners buying U.S. assets. They’re buying claims on the United States, and of course there is a maximum amount of claims that can be owned by foreigners—namely, 100 percent. That puts a conceptual limit on foreign investment in the United States. The detailed numbers make a difference here. I don’t want to go to the blackboard with the equations, but let me just say that if one were to flat-line the \$600 billion deficit indefinitely into the future, the foreign share of ownership of U.S. assets would continue to grow for roughly fifteen years. At the end of that fifteen years, net foreign claims would reach about half of the U.S. GDP and then—because the U.S. economy is

assumed to be growing during this period of time at roughly 5 percent a year in nominal terms—would begin to recede thereafter. There's nothing unsustainable about that. That does not reach explosive debt dynamics. Some numbers can reach explosive debt dynamics. But they're not the ones I'm talking about. So on neither account—debt dynamics nor disposition of foreign savings—do I see this deficit as unsustainable.

Is this large deficit desirable? Well, in some abstract sense, no. It's not desirable that America should be selling such a growing fraction of its claims on the U.S. economy to foreigners and that Americans are saving as little as they are saving relative to the investments that we make.

I want to note in passing that the investment ratio in the United States is among the lowest in the world, and yet despite that, we continue to grow at a nice rate, leaving aside the recessions that we have from time to time. I'm talking about long-term trends. We have been for the last half-century and remain the economic pacesetter for the world. We're moving the technological and economic frontiers outward. We have such a low rate of investment because we get such good return to newly invested capital in the United States, compared with other parts of the world. So we're a relatively low investor, but we generally use our investment productively.

We are an even lower saver, and we in effect draw savings from the rest of the world to supplement low U.S. savings. So in some abstract sense it would be nice if Americans saved more. The fact is, although we've tried many times, we do not know how to raise private savings. We only know one way for certain to increase the national savings rate in the United States, and that is to reduce the federal budget deficit. The government and the private sector are both dissaving, and the differences are being made up by this investment from the rest of the world. In the United States we have tried all kinds of gimmicks. No doubt many people in this room have entertained one or another of them—IRAs, ROTH IRAs, Section 529 accounts, etc. We have all kinds of tax gimmicks to increase private savings. None of them have worked in the aggregate. Americans are smart enough to shift their savings around to take advantage of whatever tax incentives there may be. But they have not succeeded in increasing aggregate private savings in the United States. We only know one way to increase aggregate national savings, which is the combination of private savings and government savings, and that is to reduce the budget deficit, as the government was dissaving at the rate last year of four hundred plus billion dollars.

But policy is not in the business of comparing reality with abstract desirables. Policy has to make choices among feasible alternatives. Apart from reducing the budget deficit—I'm going to come back to that—we don't know how to increase the savings of Americans.

Furthermore, if you look at the rest of the world, there is excess savings there. In spite of the ageing that's taking place rapidly in Europe and Japan—the other rich parts of the world—they continue to save at quite a high rate, at a rate much higher than they can invest domestically profitably. So their excess savings come, directly or indirectly, mainly to the United States, where investment returns are better than they are at home. China has a very high investment rate—too high, according to the Chinese authorities, last year and in 2003. But China also has a very high savings rate and a very poor capital market. Given the option, as I've suggested, I'm sure there are many Chinese who would be happy to diversify a portion of their savings by investing in the United States if they had the opportunity of doing so.

So there's excess savings in the rest of the world. Unless the excess savings finds some place to go, it would produce a world recession—at its worst, even depression. This is the lesson of John Maynard Keynes' writing in the 1930s that excess savings without attractive investment opportunities is a depressionary factor in an economy. So one way to think about it is that the profligacy of the American consumer, as many Europeans put it, is actually saving Europe—and other parts of the world—from a serious recession.



So desirability depends on what the feasible alternatives are. With the exception of some things we can do here in terms of the magnitudes involved, I see the U.S. current account deficit continuing on a large scale—not necessarily a six-hundred-billion-dollar scale, but on a large scale—indeinitely into the future. It is not, in my judgment, going away soon, no matter how many articles Pete Peterson writes for *Foreign Affairs*.

Let me turn, then, to the U.S. budget, which is the one area of policy where, at least in principle, we can make some changes. I've already said that the president's budget just submitted a few weeks ago has been priced out by the CBO. It has well-defined rules for doing that. It cannot change government policy. So the CBO takes the so-called mandatory components of the budget and does its best job of estimating what they will cost in the coming years, and then it has rules for carrying forward the discretionary components of the budget.

Let me remind you of the main components, at a high level of generalization. I know we have many non-Americans in the room. The United States is a federal country, and we—all Americans—are taxed by at least three levels of government: the federal government, our state government, and our local government. States and municipalities both tax and spend. The focus I'm going to put is on the federal government deficit.

The main component of interest to this group is the defense budget, which is mainly the Defense Department but includes a bit of the Energy Department, \$454 billion in fiscal 2004. That final figure includes the spending from the supplemental that was passed, insofar as they resulted in outlays in fiscal '04.

The biggest item of the budget at this high level of generalization is not quite twice that. It's called "income security." It was \$818 billion in the year 2004. Now what is that? It is, overwhelmingly, pensions: our Social Security system, which is the national pension system—rather stingy by the standards of Europe and Canada, but nonetheless a comprehensive national system. It includes government employee pensions. It includes military pensions. And it includes a number of other, smaller, income support items, such as food stamps for people who are eligible for food stamps and so forth. Eight hundred and eighteen billion dollars—we're going to hear a lot about the major component of that item this year. That's the Social Security system, and I'm going to come back and make some remarks on that in a moment.

The second biggest component is health care—\$527 billion in 2004. This is the most rapidly growing component of the budget. It doubled over the last decade, and there's no sign of its not continuing to double in the coming decade. So it now exceeds—which it didn't a decade ago—the defense budget.

The fourth item (counting defense as the third item) is "other discretionary" items in the budget. That is essentially all government other than defense and other than the income security, the pension systems and the federally financed healthcare systems—\$387 billion. Less than the defense budget. The entire U.S. government, putting aside health and pensions, spends less on non-defense than on defense these days, which is remarkable and, with the exception of a few countries like Israel, unique in the world.

Finally, since we have accumulated deficits in the past, we have to pay interest on the outstanding public debt, \$160 billion in 2004. Interest rates are exceptionally low at the present time. That number can be expected to grow. Given the continuing deficits that I've mentioned, that number can be expected to double in less than ten years, to over three hundred billion, even without a dramatic increase in interest rates.

As many of you know, but some of you may not know, every year the president presents essentially a one-year budget to Congress, and Congress typically appropriates one year at a time.

The one-year budget has to be embedded in a five-year notional budget, and that in turn has to be embedded in a ten-year economic framework. The Congress is not appropriating for ten or even five years. It only appropriates for one year. But the framework that the Bush budget uses for revenue purposes is GDP growth of 4.9 percent over the next ten years. Defense spending rises over the next five years at 3.4 percent, nondefense discretionary spending at 1.2 percent, and most of that—well, all of it—is for homeland security. Defense is up for FY '06. Nondefense discretionary spending is down in nominal terms. And since, while we have low inflation, it is not zero, that means an even more severe cut in real terms than the cut in nominal terms.

In spite of that, we have cumulative budget deficits, as I mentioned, of 2.6 trillion running out to 2015. Most of that budget deficit is due to the extension of some tax cuts that we had passed in 2001 and 2003 and which are scheduled at varying times to expire. President Bush would like to make those tax cuts permanent, and that's the main factor that produces the continuing deficit. It does not count future supplementals, which we know we will have to have. And it does not count another major President Bush initiative. Privatizing Social Security is not counted in that figure.

Only President Bush's loyalest acolytes believe that his 2006 budget will pass Congress in its current form. Too many programs that are congressional favorites are slated to have absolute cuts—sometimes modest cuts, but nonetheless absolute cuts in spending. Congress is made up of five hundred and thirty-five willful individuals—for the most part with reasonable discipline in the House of Representatives, but with little discipline in the Senate. A reasonable objective forecast is that after the budget is massaged by Congress, it will not emerge unscathed, and in particular it will not emerge with very tight screws that the president has proposed on discretionary nondefense spending. But the CBO is not permitted to speculate about what Congress will do. The CBO's forecasts do not take into account what I'm saying will occur, which is that some of those cuts that have been proposed in the budget will not actually take place.

Now let me talk briefly about the two biggest items in the budget, which is pensions and health care. There will be a lot of talk in the United States this year about the crisis in the Social Security system, which is America's national pension system, and how we need to resolve that crisis, and how the president's proposal, which is to privatize a portion of the scheme, will help. The Social Security system as it exists today has some problems, but in my view they are manageable problems. Let me just remind you of a few relevant historical facts about the Social Security system and its future, which we're now talking about.

The Social Security system was introduced in 1935, and the retirement age of 65 was set in that year. That was seventy years ago. At that time, male life expectancy at birth was under 65 years. Sixty-five was the retirement age. Today male life expectancy at birth is about 77 years. It's grown by twelve years in the intervening seventy years, more than one year a decade. This is a worldwide phenomenon. It's one of the remarkable characteristics of our time, what is happening to health and longevity. Contrary to what you sometimes read, these are healthy years. The World Health Organization has a concept of healthy longevity, as distinguished from literal birth to death. And while it is true that the last few years of life are pretty unpleasant for many people, that was also true seventy years ago. Remarkably, it turns out, speaking of the U.S. and the other rich countries, Europe and Japan, disability in age was worse seventy years ago than it is today. So these are not only longer lives, they're healthier lives. Until some years ago in the United States, and still in most other countries, 65 is the retirement age. It is an amazing phenomenon. A number that was set seventy years ago in the U.S. in a very different environment—and in Germany in the 1880s, where under Bismarck the original national pension scheme was introduced. Age 65; life expectancy at that time was about 55. The only people who could expect to earn their retirement income under the Bismarck scheme were the long-lived senior civil servants. It was a skillful con job to placate a newly industrialized labor force, is the best way to put it.

We have begun to make an adjustment in this country, and as many of you probably know, in existing legislation we have raised the retirement age to 66, and in about two decades to 67. That is where it stops. In my view, we should continue this process, one year a decade, at least until age 70. We don't have to make these decisions now for all time. Maybe three decades from now they can extend it further. But starting in 2030, I would raise it to 68; starting in 2040, to 69. The advantage of doing this in the long lead time is that you're not violating anyone's contract. New people coming into the labor force know what's ahead of them.

Furthermore, this increase in retirement age, which is consistent with the healthy longevity which we're experiencing, does not even necessarily mean a longer working life, because the other thing that's happened over the last seventy years is that the average school-leaving age has also increased. The average school-leaving age in the 1930s was around 15. Now it's over 20. These are averages. So we spend more time in our young years in schooling. And we spend more healthy years in our old years. So my concept is to recognize that reality in our pension system and essentially shift the pension system measured in chronological age—shift it forward. It makes a big difference to the economics of the pension system. The Social Security Administration is bound by law to follow existing government policy. So its projections out to 2075—the ones that tell you that it's going to be “bankrupt or insolvent” in 2042—all assume no change in legislation, because that's the rule under which government agencies operate.

Another assumption is made that's quite remarkable. If we had time I would run a poll among this group: What do you think immigration assumptions are? This is a country of immigrants. We have to make some immigration assumptions. We can only follow extant law. So the Social Security Administration, when it does these projections, assumes, decade after decade, flat immigration of eight hundred thousand a year. That is about three hundred thousand below the level of legal immigration that we've had in the last several years. So they actually project a decline in immigration from today, and of course it makes no allowance for illegal immigration, which we estimate on the order of four hundred thousand a year. Immigration of eight hundred thousand a year, in the context of assumed declining birthrates, so that the labor force by late in this period is growing only at two-tenths of a percent a year, compared with roughly 1.1 percent a year over the last four decades. These are dramatic changes in the nature of the growth of the U.S. labor force, and in my view—but I'm not bound by the government rules that bind government agencies in making forward projections—in my view there's a deep inconsistency in these assumptions. If the demographics turn out to be as they are assumed to be, taken from the Census Bureau forecasts of population growth, then the immigration assumptions are surely badly wrong. We will have immigrant levels probably twice, maybe three times the levels that are assumed. It may be that the demographic assumptions turn out not to be correct. One of the interesting features of the modern world is that birth rates have fallen in all of the rich countries of the world, but they've fallen much less dramatically in the United States than they have in Europe and Japan. We have various explanations, but fundamentally we don't understand why that is so. So the Census Bureau, in making its forward projections, is engaging in some speculation, necessarily far into the future.

By making these two policy adjustments—in the retirement age and in immigration—making them more realistic, the Social Security problem goes away. It simply goes away. Now each of these is a big issue. We have a big public debate on them. There are things that we can do, that would be sensible to do. The Social Security “crisis” would simply go away.

Privatization of Social Security, in my judgment, not only does not solve the problem but actually could make it worse. I say “could” because we don't know. The president has not put forward a concrete proposal. He's put forward a concept, but he has not put forward a proposal. In these financial matters, the details of any action are very important. But anyway, in some of its variants that are discussed by some of the think tanks, the privatization of Social Security

actually makes the financial structure of Social Security worse. It does not improve it. It may be a good idea, but we should debate it on its merits, not in the context of saving Social Security.

The part of the budget that in my assessment is not manageable at the present time is the healthcare budget. It is out of control, and we have no concept for bringing it back into control. It is a hugely sensitive issue, and for that reason no politician wants to discuss it, and therefore we ignore it until it's going to slap us so hard financially that we cannot ignore it anymore. The numbers that I've given you do not include an important component of federally funded health care, which is of special interest to some people in this room, and that is the military healthcare system and the veterans' healthcare system. Those are in different parts of the budget. They have both doubled over the last two years. The Defense Department last year spent \$26 billion on health care alone for its active duty members and their families. The healthcare coverage has been extended to reservists and their families. Every time Congress gets into the act, we increase the financial exposure rather than reducing it. We did that when we extended Medicare to cover prescription drugs.

The good news is that medical science—it's part of the innovation that I mentioned earlier in talking about the U.S. economy—is producing one fantastic thing after another as the years go by. The problem is that as new diagnostic and therapeutic treatments become available, Americans think that they have a right to them but not an obligation to pay for them. Somebody else can pay for them. This is becoming impossibly expensive. It used to be said that there are only two certainties in life, death and taxes. But with the advances of medical science that we're having, death is actually becoming an option. Yet it's a very expensive option. We do not want to deal with it because it's going to be an extremely unpleasant debate, but it's a debate that we need to have, over what are the reasonable bounds to put on public obligations for health care in the United States? It is a debate that is beginning to take place in some states but not at the federal level. So when it comes to serious disagreeable choices, this is the area that I would point to more than any other single area in the budget.

It's implicit in what I've said about Congress that I think that we run grave risks in squeezing the discretionary nondefense part of the budget too much. That is to say, ordinary government—the highway and port system, the law enforcement system, the court system, and so forth—is being squeezed too much. We went through a similar episode in the early 1980s, you may remember. President Reagan looked favorably on the Defense Department but generally had an animus against government spending. We squeezed nondefense spending. Among the folks that we squeezed were financial supervisors. One result was the savings and loan crisis, which cost the American public, in the end, a hundred and thirty billion dollars, a totally unnecessary cost that came about through mistakes both of omission and of commission that took place in the early 1980s, arising, among other things from this animus against nondefense government spending.

You all know the clichés. Bureaucrats are lazy. They don't work. They get in the way of the serious business of the economy, and so forth and so on. And that may actually be true of some bureaucrats, but I have not found any such bureaucrats in my admittedly limited experience, which had to do with State, Treasury, OMB, and the Antitrust Division of the Justice Department. Bureaucrats may be doing some things that turn out to be unwise, but we ought to debate the wisdom of what they're doing, not whether they should exist or not.

I spoke longer than I planned to. I just want to say two more things. You're going to talk later in the day about defense. Part of our problem with the defense budget is that we are falling between two stools. We have a strong legacy in the military services that came out of the Cold War era. We are having great trouble putting that legacy behind us. It has a tremendous amount of inertia. And the inertia involves expenditures. At the same time, we're engaged in the process of transformation, some of which, I don't have to tell people in this room, is entirely rhetorical, some of which is re-labeling things we were doing anyway—but some of which is real because



the world for the next three decades will be very different from the world it was three decades ago. And we're trying to do both, which is one reason why the defense budget has jumped 50 percent in the last five years. We need to be much more hard-nosed than we have been about our priorities.

We ought to go back to threat-based budgeting. We need some imagination in defining the threats. That's okay. But the current capabilities-based budgeting essentially, conceptually, places no limits on the level of spending in the Defense Department. But you will talk more about defense later today.

Let me close by saying that the GDP of the United States is going to pass twelve trillion dollars this year. The per capita GDP will be above forty thousand dollars. We are unbelievably rich. My grandfather, who was born in 1881, could not imagine what our world would be like today, how well off we are. And yet Americans think of themselves as poor. It's a paradox. We're unbelievably rich, both by our own historical standards and by global standards. Only a handful of countries, Norway and Luxembourg, are up there in the same league. And yet we act as though we're poor.

Among rich countries, along with the Japanese, we are the most lightly taxed country. Americans—taking all levels of government now, not just federal but also state and local—pay 29 percent of GDP in taxation. Japan is slightly lower. European countries range from 33 percent in Switzerland, which is a highly decentralized country, to 50 percent in Sweden. Canadians, our neighbors to the north, tax themselves at about nine percentage points more relative to their income than Americans do. The percentage of personal income that goes into personal income tax is actually lower today than it was in 1960. The tax revenues, of course, are higher, because incomes are very much higher than they were.

The U.S. economy has grown in real terms by about a factor of four since 1960, over the last four and a half decades. Americans have, and have had historically—this is not new—a strong aversion to taxation. I think that we need to have in this country serious debates—not phony debates, but serious debates—over what programs we want, and which ones we want in the private sector and which ones we want in the public sector, and then tax ourselves to pay for the programs that we collectively decide that we want.

When our budget deficit was much smaller, the claims we were selling to foreigners—or, to put it more accurately, the claims foreigners wanted to buy in the United States—were claims largely on the private sector, not exclusively because a lot of government bonds were purchased too. On the whole they went into investment. When we can invest capital in this country to yield over 10 percent, say, before taxes, in social return, and we pay on the pieces of paper that foreigners have bought say 8 percent, that's a good deal all around. Foreigners are better off compared with what they could earn at home, and Americans are better off getting the margin between what we can invest capital at and what we pay the foreigners for it. But when we're producing government pieces of paper that in general—there are a few exceptions, such as R&D—do not add to the productive capacity of the country, we are simply putting a lien on future generations by selling those claims to foreigners.

For the reasons I've given, I don't see the current account deficit going away for a long time, but I do think we do need to do something serious about the budget deficit, something we can in principle do. It's a political problem. It is not an economic problem. We can certainly afford more than we now pay for the public services that we've demonstrated that we want.

Thank you very much.



## Dr. Richard N. Cooper

### Questions and Answers

Now I understand we have fifteen or twenty minutes for questions and comments from the floor. Yes, sir?

**Q. Dick, good to see you. A two-part question: one, did I understand you to say that in the five-year estimate from the Bush administration the GDP growth was projected at 4.9 percent?**

A. I think that's the ten-year projection, yes.

**Q. That's the ten-year projection.**

A. Yes.

**Q. How realistic would you judge that based against historical standards, and if we were to vary that assumption to some extent, just simply to reflect historical patterns of growth, what would that do to some of the estimates that are made?**

A. Let me say two things. First, in these projections, recessions are not forecast. So this is a sort of capacity. You know, nobody is trying to say that we're not going to have another recession in the next ten years. That would be historically anomalous, actually, to do that. So these are growth and capacity projections. They reflect some recovery still remaining from the 2001 recession and then steady-state growth. And I think that as a ballpark number it's in the right ballpark. If you were to ask me, it's actually a shade on the low side. Remember, this is nominal growth. This is nominal growth, so it includes a little bit of inflation in there. You know, I'm not professionally in this business. But I try to pay attention. I would have said maybe 5 percent, to choose a round number, rather than 4.9 percent, and maybe even 5.1 percent. And that will reduce the budget deficit—all other things equal, that will reduce the budget deficit somewhat, because taxes, particularly income taxes and corporate profit taxes—well, and sales taxes, do respond to the total growth in the economy. So I would not say—contrary to what has been the case in some past budgets, I would not say that the administration has padded the growth assumptions of this budget. And the CBO actually agrees with the growth assumptions in the budget. Yes?

**Q. How, if at all, do you anticipate the organization of the Europeans and their Common Market to affect our economic future?**

A. Well, the conventional view with respect to the current account deficit, as I've said, is that it's unsustainable, and how are we going to get out of it reasonably gracefully? Well, again the conventional view is, we probably need—we've had a substantial depreciation of the dollar against many currencies, and the conventional viewers will probably have some more modest depreciation of the dollar and more growth in Europe and Japan. These are the other big parts of the world economy. China is growing very rapidly. But China, it's worth keeping in mind, in real purchasing power terms is still only a quarter of the size of Japan. So it's coming along nicely, but it's not yet a big player in the world economy as a whole, except in some particular commodity markets—copper, for example. So, to come to your question, what are the prospects for Europe in particular, and I actually don't think they're very good. The first thing to say is that Europe is actually very diverse, and the periphery of Europe—that means Ireland, Portugal, and now the

Central European countries—Slovakia, Hungary, Poland—are actually doing quite well. And I think in growth terms and, I think, can be expected to continue to do well. But the core of Europe, which means Germany, Italy, and France—Britain, as usual, is an island in the middle of the Atlantic; I mean it is written, as you know, as a member of the European Union, but it is not a member of the European currency area. And the British economy has been—also Sweden, which is not a member of the currency area—have been doing markedly better than Euroland, as it's called, the twelve countries in Euroland. But speaking of Euroland, I do not see good near-term prospects. I note with interest that the International Monetary Fund in its semiannual forecast has just reduced sharply their expectation for this year for European growth. And Germany is the dominant national economy. France and Italy are next in size. These countries are hobbled by their own regulations. They are hobbled by high levels of taxation. I talked about the low levels of taxation in the U.S. I want that not to be misunderstood. I do not recommend going to continental European levels of taxation. But there is actually a lot of room in between where we are and where the Europeans are, which is typically over 40 percent. Germany is 45 percent of GDP in taxation. Schroeder—well, all of the governments except Berlusconi are trying serious reforms, and it's an uphill fight politically. And they are succeeding. But they are succeeding at about a fifth the rate at which they should be moving. And then on top of all of that, and that's of course motivating some of the reforms, the demographics are quite unattractive, especially in Italy, Spain, but also Germany, and these are economies which are not nearly as flexible as the U.S. economy is. And I think that an absolute decline in the growth of their labor force, which is what they're moving into starting this year, is going to reduce the flexibility even more, because the most flexible part of the labor force are the new entrants. First, they have the most up-to-date education. They don't have the experience, of course. But people in their twenties—they have the up-to-date education. And they're mobile. They're certainly mobile [among sectors], and they're more likely to be geographically mobile than more established workers are, especially in Europe. And so the continental European economies, for demographic reasons, are losing, I think, an important element of flexibility. Now they remain important sources of ideas and technological developments. So I am not one to look to Europe to bail us out of our current account deficit. I don't think we'll see that robust growth in Europe.

**Q. Sir, a lot of our arguments seem to be based on—sustainment seems to be based on the robustness of the American economy. So my question is, what's your estimation of the American economy to be able to sustain a truly cataclysmic event and by that I mean something—orders of magnitude larger than 9/11, like a biological terror attack or some natural disaster on the order of the Indonesian tsunami?**

**A.** Well, it's very difficult to answer that kind of question in the abstract. One needs to get into particulars, and then what are the particular problems that are created and how well do we deal with them. I am much less pessimistic about a biological attack than some public discussion would have you believe. One can imagine many things, of course. But if one tries to put some discipline on the imagination and talk about something that is unlikely but feasible, my guess is that after some early serious stumbles—because we are not, as I understand it, not now well prepared to deal tomorrow with a big attack—but my guess is that after some early serious stumbles, we would actually bring it under control. I think the greatest damage that such an attack would do would be through the psychological impact that it would have rather than the actual devastation that it created. And it's possible that a psychological environment could be created which would lead us to do some really stupid things. I mean, you can't rule out—it's very hard to predict that. But barring that, if people keep cool heads and keep to their jobs, my guess is that we could handle that kind of attack very, very well. Now there are folks who would say that a



tsunami of the Indonesian type off the coast of southern California would be a net benefit to the United States. I'm not one of those, but it is worth noting. Yes, sir?

**Q. Just two things: you seem to have indicated that discretionary spending is undergoing sort of a draconian reining in, and I gather your solution would be to raise taxes somewhat. Well, in the first place, discretionary spending has been growing at very high rates in recent years. I mean some years, 7 percent, 8 percent, 9 percent. Why is it so draconian that after that built-in rate of increase we try to slow it to 1 percent or 2 percent? It would seem to me that there's plenty of spending that has taken place in order to take care of all kinds of contingencies. And as far as raising taxes is concerned, isn't there—I mean, you described the American economy as a dynamo. Isn't there a high degree of correlation between our low rates of taxation and the fact that we are a dynamo economy, and don't we risk upsetting that if we raise the taxes too much?**

**A.** Well, the key words in your sentence, in my view, are “too much.” I don't want to raise taxes too much. I would certainly not deny that there is a relationship between the robustness of the American economy and the fact that we don't tax people excessively. But I would like to remind you that the two countries that have tax rates closest to the U.S. level—that is, Japan, marginally lower, Switzerland, a bit higher—are not robust economies at the present time. So low taxes do not by themselves assure robustness. That's the first—just an analytical point. And secondly, whereas I do think that the tax levels in some of the continental European countries are seriously harmful to their economic performance, as I said, there's a big difference—about sixteen percentage points of difference—between where we are and where they are. So there's—and every 1 percent in the United States raises a hundred and twenty billion dollars worth of revenue at today's level of GDP. So relatively modest increases in tax rates, I think, could be done. Taking us back to where we have been in the past actually could be done—I mean, to put it gently—without devastating the U.S. economy—in fact, I think, could be done [without harm]. Now on your first point, it is absolutely correct, and it's remarkable and a little-remarked fact that nondiscretionary government spending between 2003 and 2004, which, I remind everyone, was a presidential and congressional election year, went up remarkably quickly. There was a big increase particularly in that year between 2003 and 2004 in a lot of programs. President Bush has not vetoed a single piece of legislation, as far as I know. He's given Congress its head. And in the United States—I alluded to the five hundred and thirty-five congressmen. Many of these individuals are smart, well educated, well motivated; but as a group, they are undisciplined. And they cannot be disciplined as a group. We rely—the American system, in my view, relies on the president to provide fiscal discipline. That's his job. And I think Bush in the first administration actually failed in this important component of his job, what I consider the president's job description. He failed to provide budget discipline. He's now trying in the second administration. And I give him credit for that. I didn't want to suggest that no program should be cut, but every program outside of some of the components of homeland security goes down in—it depends on how you classify them, but at a certain level of generalization—goes down in nominal terms. It looks almost like it's an across-the-board cut. That is not a sensible way to do budgeting, and it's not a realistic way to do budgeting. I mean the White House is smart enough politically to know which programs can be cut at least with presidential discipline and which programs Congress is just not going to allow to be cut. And so in that respect—and that's what I meant to suggest—it's an unrealistic budget. It's an unrealistic budget.



## Panel I

# Competing National Priorities: Strategic and Resource Choices



*Panel I moderator Richmond M. Lloyd (far right) leads Andrew L. Ross, C. Lawrence Greenwood, and J. Michael Gilmore in a discussion of competing national priorities.*

*Moderator:*

**Dr. Richmond M. Lloyd**

William B. Ruger Chair of National Security Economics  
Naval War College

**Dr. J. Michael Gilmore**

Assistant Director for National Security, Congressional Budget Office

**Mr. C. Lawrence Greenwood**

Deputy Assistant Secretary,  
International Finance and Development,  
Bureau of Economic and Business Affairs, Department of State

**Dr. Andrew L. Ross**

Research Professor, Strategic Research Department  
Naval War College



# Opening Remarks

**Dr. J. Michael Gilmore**  
**Assistant Director for National Security**  
**Congressional Budget Office**

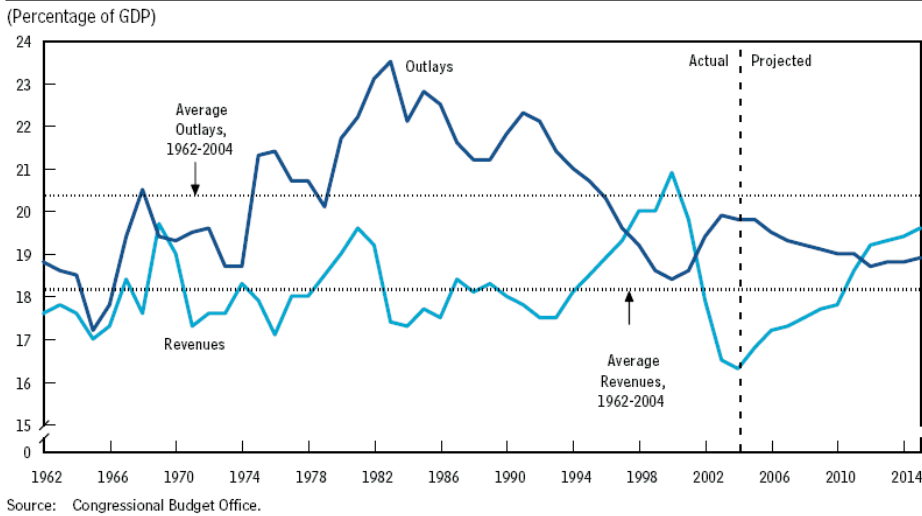
*The following is an edited written statement summarized by  
Dr. Gilmore in his opening remarks.*

The Congressional Budget Office (CBO) has examined pressures on the federal budget over the coming decades and the kinds of policy choices that lawmakers face as they consider ways to alleviate those pressures. If current policies continue, rapidly rising health care costs and an aging population will sharply increase federal spending for entitlement programs, such as Social Security, Medicare, and Medicaid. In its December 2003 report on *The Long-Term Budget Outlook*, CBO presents illustrative scenarios for federal spending and revenues through 2050 and describes the implications of those scenarios for the economy. In accordance with CBO's mandate to provide objective and impartial analysis, CBO provided no recommendations in conjunction with its analysis.

As health care costs continue to grow faster than the economy and the baby-boom generation nears eligibility for Social Security and Medicare, the United States faces inevitable decisions about the fundamentals of its tax and spending policies. CBO has examined a range of possible paths for federal spending and revenues over the next 50 years and combined them into various hypothetical scenarios. Analysis of those scenarios suggests the following conclusions:

- Driven by rising health care costs and an aging population, spending on entitlement programs—especially Medicare, Medicaid, and Social Security—will claim a sharply increasing share of the nation's economic output over the coming decades.
- Unless taxation reaches levels that are unprecedented in the United States, current spending policies will probably be financially unsustainable over the next 50 years. An ever-growing burden of federal debt held by the public would have a corrosive and potentially contractionary effect on the economy.
- As the U.S. tax system is currently configured, revenues will increase as a share of gross domestic product. Under current law, taxpayers will face higher rates, with detrimental consequences for work, saving, and economic growth.
- Fiscal policy could be financially sustainable if the growth of health care costs slowed significantly from historical rates. But even in those circumstances, tax revenues would probably need to be higher than they have been in the past.
- If taxation is restricted to the levels that prevailed in the past, the growth of entitlement spending will have to be substantially reduced. Restricting the growth of outlays for defense, education, transportation, and other discretionary programs would not be enough to ensure fiscal sustainability.
- Likewise, economic growth alone is unlikely to bring the nation's long-term fiscal position into balance. Moreover, issuing ever-larger amounts of debt or dramatically raising tax rates could significantly reduce growth.

Before examining the longer term in detail, consider first the budget outlook over the next ten years. This past January, CBO released its annual projections for federal revenues and spending (or outlays) in *The Budget and Economic Outlook: Fiscal Years 2006 to 2015*. (Those projections have

**Figure 1****Total Revenues and Outlays as a Percentage of GDP, 1962 to 2015**

recently been updated as part of CBO's March 4, 2005, *Preliminary Analysis of the President's Budget for 2006*.) CBO's projections are not predictions of future budgets; rather, they serve as a neutral benchmark that Congress can use to measure the effects of proposed legislation.

CBO's January projections, which by law assumed no changes to current policies and enacted legislation, indicate deficits averaging about \$200 billion a year continuing through fiscal year 2011. Over the period from 2012 to 2015, CBO projects surpluses averaging about \$100 billion a year due primarily to the expiration of tax reductions enacted in 2001 and 2003. (The President's Budget for 2006 proposes that several of those reductions be extended, resulting in projected deficits averaging about \$260 billion a year over the period from 2006 to 2015.) As a percentage of annual gross domestic product (GDP), the deficits in CBO's January and more recent projections, which average somewhat less than 2 percent of GDP, are within historical experience over the last forty years (see Figure 1).

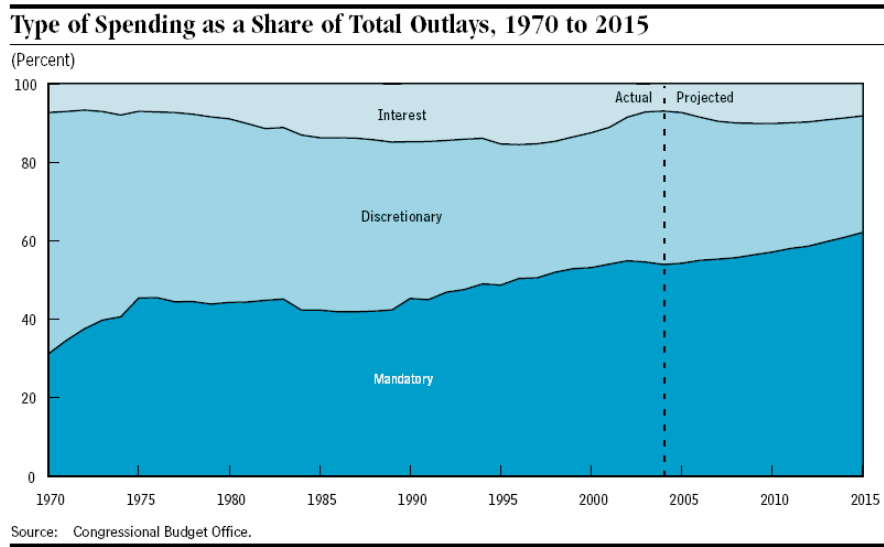
Because they were based on current law, CBO's January projections assumed the following:

- Tax reductions enacted in 2001 and 2003 expire in 2010.
- No changes are made to the Alternative Minimum Tax.
- No additional supplemental funding is appropriated for military operations in Iraq and Afghanistan.

Consistent with CBO's preliminary analysis of the President's Budget, extending tax deductions beyond their currently mandated expiration dates or indexing the thresholds for the Alternative Minimum Tax would increase projected deficits over the long term. The need to fund military operations in Iraq and Afghanistan or other operations associated with the global war on terrorism could increase deficits over (at least) the shorter term.

For much of its history, the United States devoted only a small fraction of its resources to the activities of the federal government. But the second half of the twentieth century marked a period of sustained higher levels of federal peacetime spending. For the past 50 years, federal outlays

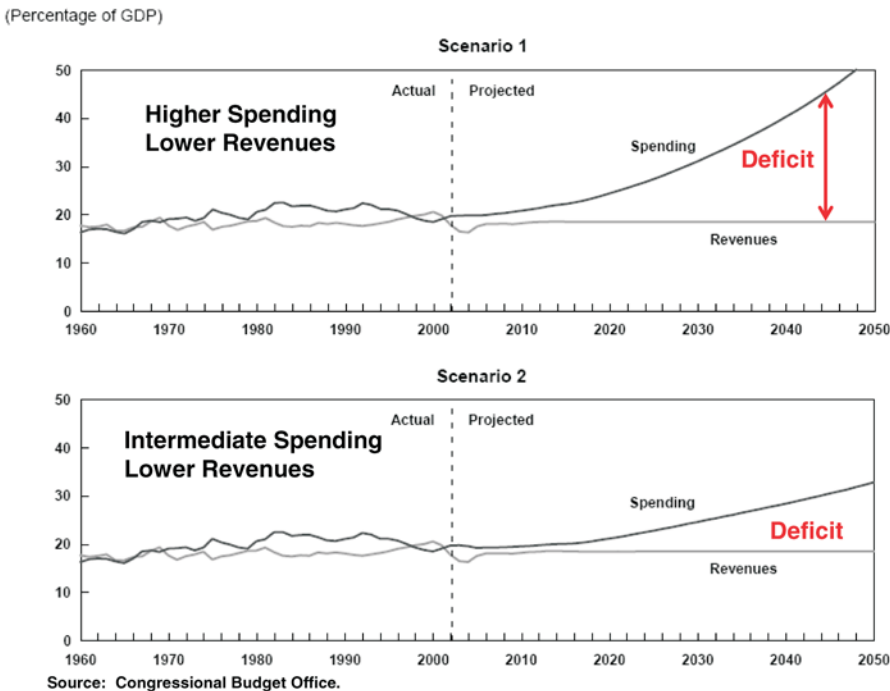
Figure 2



have averaged about 20 percent of GDP—about 2.4 percentage points above the average for the 1950s. In 2003, those outlays totaled \$2.2 trillion.

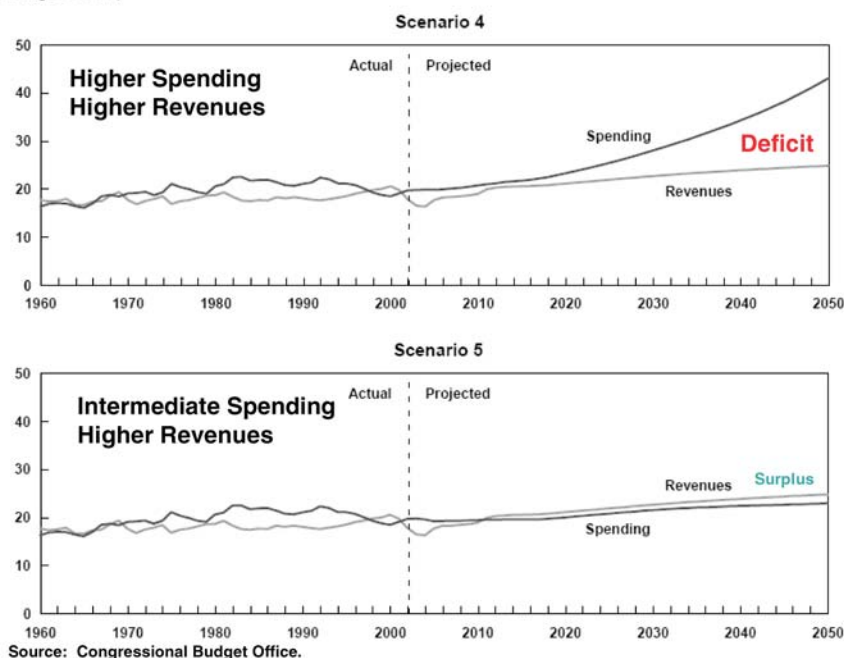
Not only has the level of spending grown, but its composition has changed dramatically. Spending for mandatory entitlement programs has increased from less than one-third of total federal spending in 1962 to more than one-half in recent years (see Figure 2). Most of that growth has been concentrated in Social Security, Medicare, and Medicaid. Together, those programs now account for about 42 percent of federal outlays, compared with 2 percent in 1950 (before the health programs were created), and 25 percent in 1975. The share of the budget associated

Figure 3



**Figure 4**

(Percentage of GDP)



with discretionary spending—appropriations that must be enacted annually by the Congress—has been declining steadily. Defense constitutes about one-half of discretionary spending.

Over the shorter term, projected deficits as a share of GDP are consistent with historical experience—but what about the longer term?

CBO’s analysis of long-term budget trends considers six scenarios composing three potential outcomes for federal spending—high, intermediate, and low—and two outcomes for revenues—higher and lower. This paper displays the results for four of those scenarios—the low spending/lower revenues and low spending/higher revenues cases are omitted (see Figures 3 and 4).

The high spending cases assume that so-called “excess medical cost growth” (growth over and above that in gross domestic national product) consistent with historical experience continues to affect Medicare and Medicaid costs. The intermediate spending cases assume excess cost growth slows to 1 percent. The low spending cases not displayed assume no excess cost growth.

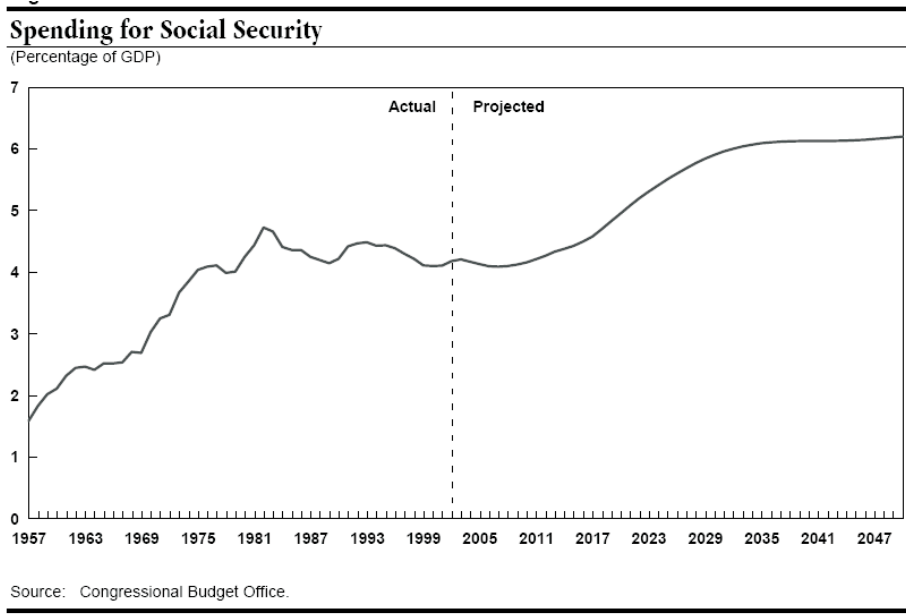
The lower revenue cases assume that federal revenues compose 18.4 percent of GDP—the average over the last thirty years—beginning in 2012. The higher revenue cases assume that federal revenues grow to 24.7 percent of GDP by 2050, roughly consistent with expiration of the 2001 and 2003 tax cuts and no action to change the Alternative Minimum Tax.

The high spending/lower revenue scenario is most consistent with historical experience and existing law. Compared with federal spending of 20 percent of GDP currently, spending in that scenario (scenario 1) rises to more than 50 percent of GDP by 2050. What drives those increases?

The retirement of the baby-boom generation portends a significant, long-lasting shift in the age profile of the U.S. population, which will dramatically alter the balance between the working-age and retirement-age components of that population. The share of people age sixty-five or older is projected to grow from 12 percent in 2000 to 19 percent by 2030, while the working-age



Figure 5



population is expected to fall from 59 percent to 56 percent. As a result, the Social Security trustees project that the number of workers per Social Security beneficiary will decline significantly over the next three decades: from about 3.3 now to 2.2 in 2030. Unless immigration or fertility rates change substantially, that figure will continue to decrease slowly after 2030. The interaction of that growth in the retired population with the current structure of the program leads CBO to project that the cost of Social Security benefits will rise from 4.2 percent of GDP now to 5.9 percent in 2030 (see Figure 5).

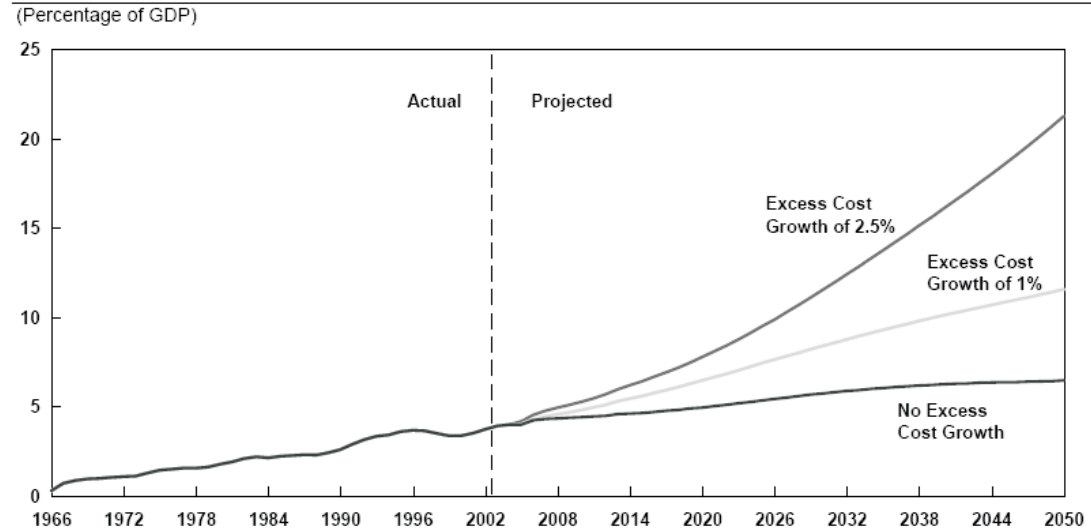
The growth of future costs for Social Security, however, pales next to the likely increases in costs for the government’s major health care programs. Rising health care costs are boosting spending to a greater degree than can be explained by the growth of enrollment in those programs and general inflation alone. Since 1970, those factors as well as policy changes have caused annual costs per Medicare enrollee to rise 3.0 percent faster than per capita GDP, on average—a difference referred to as “excess cost growth.” If that growth remained high—for example, 2.5 percent, as some of the scenarios presented here assume—the federal government’s spending for Medicare and for its share of the joint federal/state Medicaid program would together exceed 21 percent of GDP by 2050, compared with 3.9 percent in 2003. The Medicare trustees assume that excess cost growth will decline to 1 percent above the growth of per capita GDP. However, even at that rate, the federal costs of Medicare and Medicaid would climb to 11.5 percent of GDP in 2050 (see Figure 6).

The long-term scenario most consistent with historical experience (scenario 1) projects an annual deficit in 2050 of about 35 percent of GDP, about 10 times greater than historical experience over the last 40 years (see Figure 7). Under scenario 1, accumulated federal debt would exceed 200 percent of GDP; federal debt since 1790 peaked at about 110 percent of GDP during World War II.

Thus, in CBO’s long-term projections, growth in discretionary spending—about 40 percent of total federal spending, with defense composing about one-half of that 40 percent—does not have a significant effect on the projected outcomes for overall federal spending. Thus, constraining discretionary spending, even substantially relative to experience over the last 50

Figure 6

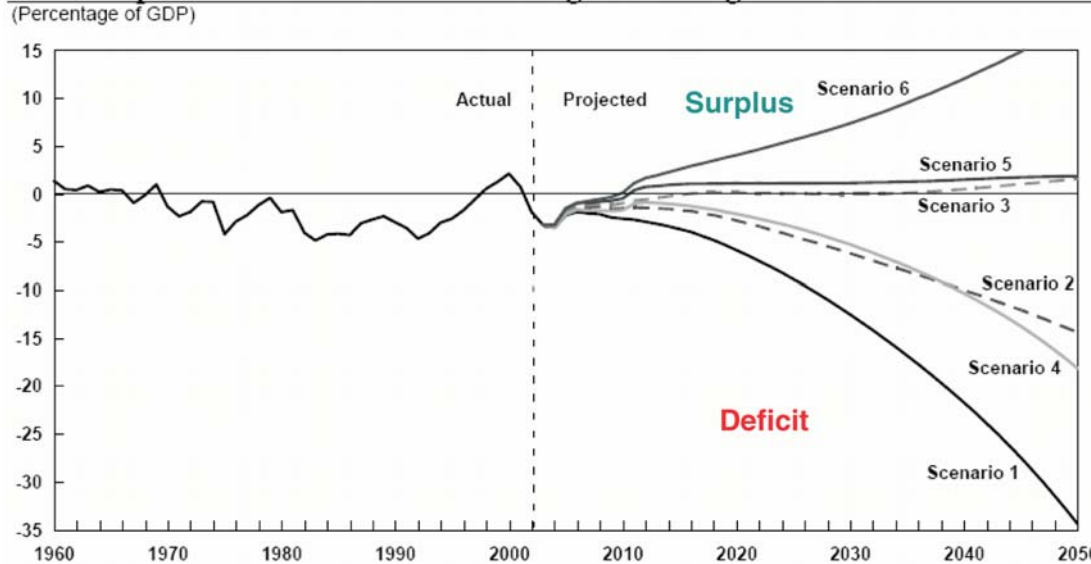
**Total Federal Spending for Medicare and Medicaid Under Different Assumptions About Excess Cost Growth**



Source: Congressional Budget Office.

Figure 7

**Total Surplus or Deficit Under CBO's Long-Term Budget Scenarios**

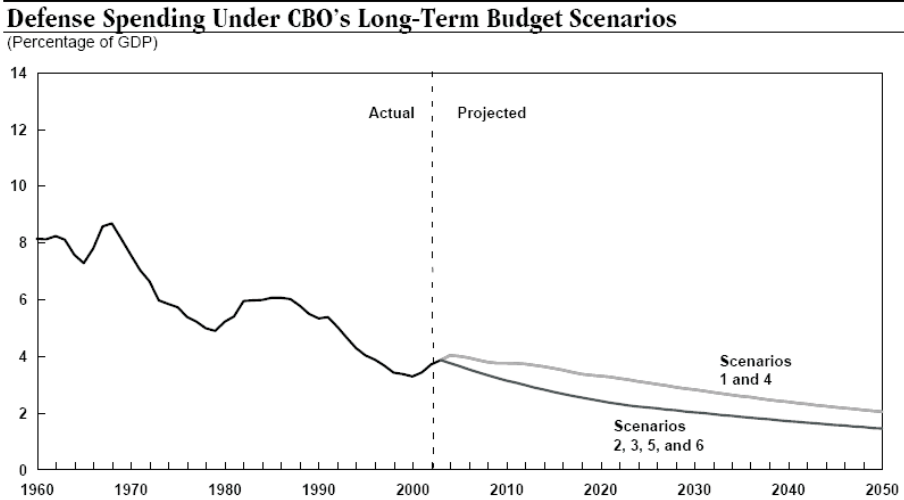


Source: Congressional Budget Office.

years, would not substantially affect the outcomes in CBO's long-term scenarios. In those scenarios, defense spending composes a steadily declining share of GDP (see Figure 8).

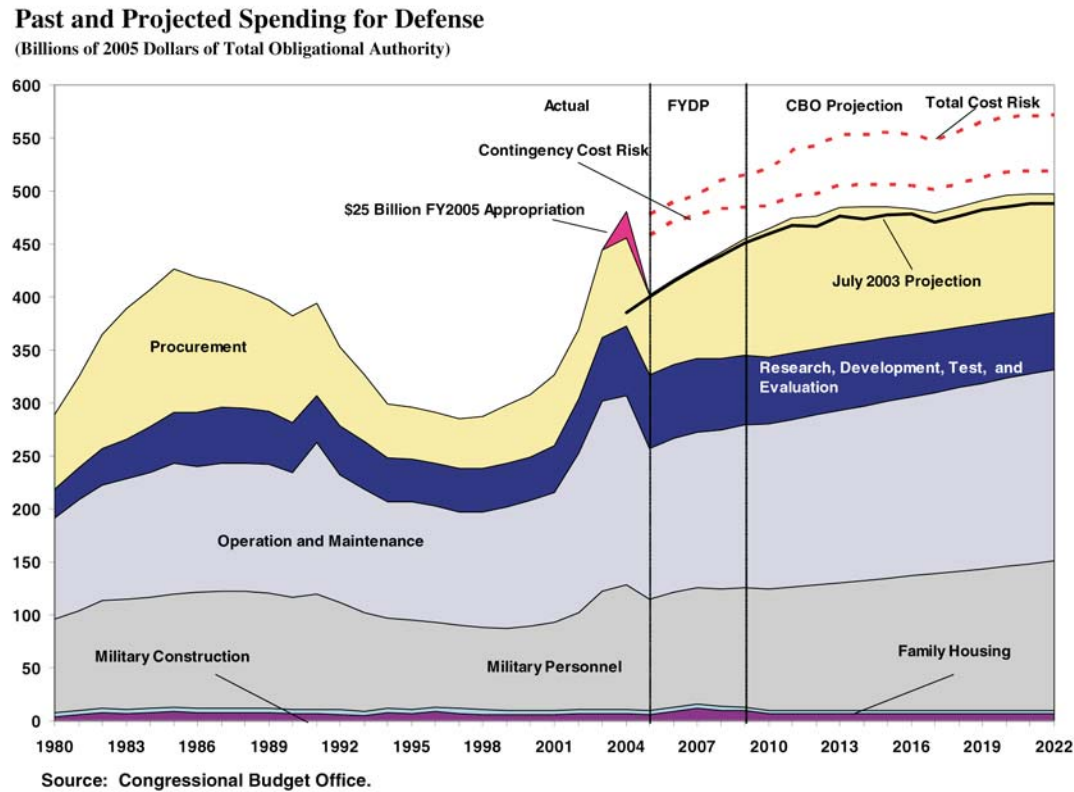
The 2004 Future Years Defense Program (FYDP) and CBO's projection of its long-term implications is the basis of scenarios 1 and 4. Last summer, CBO updated that projection to account for

Figure 8



Source: Congressional Budget Office.

Figure 9



the 2005 FYDP—the results are very similar to the earlier projection used in scenarios 1 and 4. What are the features of CBO's most recent projection for defense spending over the long term?

Defense obligations grew rapidly between the early and mid-1980s, reaching a peak of \$427 billion in 1985 (all funds are in inflation-adjusted 2005 dollars; see Figure 9). Obligations then

generally declined during the late 1980s and into the 1990s, reaching about \$285 billion in 1997. DoD's obligations began to rise thereafter, reaching \$326 billion by 2001. Obligations have grown even more rapidly in recent years as U.S. forces have become engaged in operations in Afghanistan and Iraq. In 2004, DoD's obligational authority reached \$481 billion, including \$68 billion in supplemental funding and \$25 billion provided as part of the fiscal year 2005 Department of Defense Appropriations Act.

The 2005 FYDP anticipated that defense resources (excluding supplemental appropriations) would rise from \$402 billion for 2005 to \$455 billion for 2009. If the program in the 2005 FYDP was carried out as currently envisioned, the demand for defense resources, excluding resources for contingencies, would average \$485 billion a year between 2010 and 2022, CBO projects—or about \$83 billion more than the 2005 request.

CBO also made “cost-risk” projections (shown by the dashed red lines in Figure 9). CBO projects that resource demands including cost risk will average about \$498 billion a year through 2009 and about \$553 billion between 2010 and 2022. Those values are about 16 percent and 14 percent higher, respectively, than the amounts without cost risk. Assumptions underlying the cost-risk projections include the following:

- Costs for weapons programs grow as they have since the Vietnam War; and
- The United States continues to conduct military operations overseas as part of the global war on terrorism.

# Guns and Butter: A False Choice

**C. Lawrence Greenwood**  
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**International Finance and Development**  
**Bureau of Economic and Business Affairs**  
**Department of State**

*The following is an edited written statement summarized by  
Mr. Greenwood in his remarks.*

As we examine the challenges that guest speakers have mentioned today—the war on terror, post-conflict reconstruction of failed states, the implications of the rise of China and India, and continuing poverty around the globe—we do not face a classical choice of guns or butter, or as Peter Peterson puts it in his article in the September/October 2004 issue of *Foreign Affairs*, a choice of “weapons or walkers.” Rather, economic and security objectives are interdependent—both are vital to our freedom and must be pursued in tandem. We must ensure that our economy remains strong so it can support our security requirements. As a corollary, we must recognize we cannot remain strong economically and militarily by ourselves—we can only remain strong by being open to the world.

September 11th marked an important change in our national objectives. The president has made it clear that protecting Americans from nonstate and state-sponsored terrorism here and abroad is our top national goal. Our security, however, is not simply a function of our military strength or the amount of resources we put into national security, though these endeavors are vital.

National security is just as significantly a function of the openness, efficiency, and competitiveness of our economy and that of the world.

First, our security depends on our ability to generate revenue, including through taxes, to make the required investment in our defense and security to keep us free and secure. One important reason we won the Cold War was because we had an economic model that allowed us to spend more and spend it better than the Soviet Union. A critical difference between the two models was our strong commitment to the marketplace and to limiting the government’s role in business.

Second, to keep our economy strong we must keep it open. As we are the world’s largest exporter, foreign customers increasingly fuel our growth—exports are equal to about 10 percent of our GDP and account for over 15 percent of our growth. When exports and imports are combined, our trade in goods, services, and investment income flows equals 30 percent of our GDP. Trade has created 16 million new jobs since 1970, at wages 18 percent higher than in non-trade-related areas.

On average, some \$200 billion of foreign direct investment inflows into the United States every year builds factories, employs about 5 million workers, and deepens our technology base. Foreign investors also fund most of our government deficit. It is ironic but true that China’s massive buying of U.S. securities has helped us maintain and increase government spending, including for defense budgets, by keeping borrowing costs down.

Third, open trade and investment have helped ensure our competitiveness and prosperity by facilitating efficient allocation of resources. Trade barriers and investment restrictions lead to distortions in the economy, including excessive investment in protected areas and less investment in areas of relative competitive advantage. Protecting domestic firms from international

competition also leads to complacency and poorer performance. For every trade barrier we have in place, we lower the national welfare and make ourselves that much weaker.

No matter what the rest of the world does, openness of our own economy benefits us. However, we are far better off if the rest of the world is open as well. It is well understood that an open, vibrant global market that promotes the free flow of goods, services, and capital creates new customers and business opportunities for Americans.

But it is less appreciated that an open global economy makes us safer. The link between poverty reduction and the fight against terrorism is a critical one. Poverty does not create terrorists, but terrorists use failed states as bases for operations and, more importantly, often find willing recruits among the disaffected, unemployed, and often relatively highly educated youth who can see the benefits of globalization but live in corrupt and dictatorial societies that cannot or will not deliver those benefits to their people. The sense of being left behind economically and politically can deepen historic grievances and a sense of powerlessness that is grist for the terrorist mill.

Thus, among the president's highest priorities are promoting democracy and economic growth around the world, using an aggressive agenda of trade and investment liberalization, a fast-growing program of development assistance, and our influence with international financial institutions.

To turn to the topic of the conference, in looking at competing national priorities as we ponder our budget choices, I believe the choice posed between guns and butter to be a false one for several reasons.

First, the global payments imbalances and aging of the major economies of the world, which Peterson rightly notes are among the biggest challenges facing our nation, were problems before 9/11 and continue to be major problems regardless of the added costs of the war against terrorism. What 9/11 and the war on terror have done is to make resolution of these broader demographic challenges even more vital and urgent. We are not faced with a choice of picking between our security and caring for our aged, but rather it is now more urgent to do the right thing and address the economic and social issues related to our demographic changes. We have less luxury than we did before 9/11 to ignore those challenges.

That is why the president is so serious about addressing the looming crisis of social security and health care costs. That is why the president wants to ensure that we do not tax our people so heavily that we stifle innovation, hard work, and growth. In addressing the implications of demographic changes, the president believes that taxpayers' dollars should be spent wisely. And that is why he recently sent Congress a budget that would cut the deficit in half by 2009 while meeting the essential need to protect and defend the American people.

Second, some say we face a new guns or butter choice after 9/11, arguing that we cannot afford to be as open and free as we used to be. They argue that more controls are needed on who visits the U.S., how goods and services enter our borders and move within them, and who owns and runs our corporations.

We indeed must do what is necessary to ensure that our immigration, trade, and investment policies are consistent with our security priorities. However, there can be no trade-off between security and our openness to the world. If we are not open, our economy cannot remain dynamic and we cannot achieve our growth potential, and that means fewer resources to devote to our security.

The terrorists want us to choose between being secure and being free. We must reject that choice.

Fortunately, we can do both, pursue freedom and security. That will require achieving two important objectives: better use of new and existing technologies and new ways of cooperating domestically and abroad.

For example, as we develop and adopt new screening and tracking technologies to ensure safe trade, biometric standards to better ensure safe movement of people, and sophisticated modern financial controls to monitor money laundering, these same technologies can be used to improve the speed and efficiency of commerce, travel, and finance. The progress we are making on the Canadian border is an example of what can be done around the world.

Examples of improved cooperation include increased intelligence sharing among U.S. government agencies and with trusted allies, new international standards for maritime security adopted by the International Maritime Organization, new forms of customs exchanges, as we have seen in our Container Security Initiative, and increased international cooperation between finance and enforcement officers to stop the flow of money to terrorists. It is not easy to change bureaucratic patterns and develop new bonds of trust needed for true cooperation, but it can be and has been done.

Finally, the “guns and butter” metaphor does not explain the complementary dynamic between our foreign affairs and defense budgets. There is no competition, if only because of the huge disparity in size between the two. The foreign affairs budget of the U.S. is a bargain. For about 1 percent of the total federal budget, we conduct diplomatic efforts around the world, provide the largest amount of development assistance of any nation, facilitate American business, promote democratic and economic reform, resolve disputes, prevent wars, and provide humanitarian aid, as we did recently in the case of the tragic Indian Ocean tsunami.

We need to continue to make this modest investment to ensure the critical output that is vital to our freedom and security.





# What Is to Be Done with U.S. Predominance? Grand Strategy Choices and Challenges

**Dr. Andrew L. Ross**  
**Research Professor**  
**Strategic Research Department, NWC**

*The following is an edited written statement summarized by  
Dr. Ross in his remarks.*

The United States today is still without a grand strategy. Instead, it has a grand debate, one that has gone on for a decade and a half now. All three post-cold war administrations have issued some form of a national security strategy. However, none of the three, including the present administration, have been able to develop broad public and bipartisan political support for its strategic approach.<sup>1</sup>

The debate, of course, was set off by the end of the cold war and the subsequent fall of the Soviet Union. Essentially, the question that initially drove the debate was, “What do we do now?” During the course of the 1990s, as the reality of America’s strategic position as the sole superpower sank in, the question became “What is to be done with U.S. predominance?” Not even 9/11 and the subsequent declaration of a global war on terror and the Afghan campaign brought closure to the contemporary grand strategy debate. Neither did the Iraq campaign. If anything, events since 9/11, particularly a preventive war against Iraq that was viewed by many as a diversion from the war against al-Qa’ida and its supporters, only served to intensify the debate. The debate on America’s role in the world even emerged in 2004 as a central and highly contentious issue in a presidential election, something that hasn’t happened since the U.S. withdrawal from Vietnam.

Five distinct alternatives have emerged in the U.S. grand strategy debate:

- Neo-Isolationism;
- Selective Engagement;
- Liberal Internationalism;
- Primacy; and
- Empire.

Advocates of these alternatives provide different answers to the question “what is to be done with U.S. predominance” and focus on different challenges.

## Neo-Isolationism

The neo-isolationists would have the United States resist temptation and husband or conserve the power upon which its predominance is founded. America would pull back from entanglements in

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1. These remarks draw, and build, upon my work with two colleagues, Barry Posen and Peter Dombrowski. See Barry R. Posen and Andrew L. Ross, “Competing Visions for U.S. Grand Strategy,” *International Security* Vol. 21, No. 3 (Winter 1996/97), pp. 5–53; and Peter Dombrowski and Andrew L. Ross, “The Contemporary U.S. Grand Strategy Debate: Bringing Economics (Back) In,” a paper presented at the ISAC/ISSS Annual Meeting, Washington, D.C., 29–30 October 2004 (currently under revision).

the world's affairs. Its obligations are to itself, not to others. Those obligations do not require adventures abroad; indeed, those adventures serve only to undermine the country's security.

For the new isolationists, the greatest challenge facing America is the imperial temptation posed by its preeminence. The United States must, above all, resist yielding to that temptation.

America's preeminence is both its greatest asset and its greatest vulnerability. It is the source of America's security and its insecurity alike. As we have seen recently, the neo-isolationists argue, America's preeminence enables it to go abroad in search of monsters to slay. And monsters it has found. Activism abroad—prodding, poking, shaping, intervening, supporting and toppling regimes—is only asking for trouble.

In the view of the neo-isolationists, 9/11 is the result of that activism. If the United States had not been mucking around in the affairs of the Greater Middle East and the broader Islamic world, it would not have set itself up as a target for the likes of al-Qa'ida. Neo-isolationists would have responded to 9/11 by taking out al-Qa'ida and its Taliban host; they would then have brought U.S. forces home. They would not have declared a broader global war on terror; nor would they have engaged in a preventive war against Iraq.

## Selective Engagement

The advocates of selective engagement would also have the United States resist temptation. Unlike the neo-isolationists, however, they would actively use America's predominance. But they would do so discriminately.

According to selective engagers, the international order is dominated by states and is shaped by the leading states—the major powers. It is conflict and cooperation, particularly war and peace, among those major powers that must be the primary focus of U.S. grand strategy. Therefore their attention is drawn to conglomerations of power, particularly those found at the two ends of Eurasia.

As a result of its preeminence the United States is, at the least, first among equals. But there are no guarantees that this fortuitous situation will endure indefinitely. For selective engagers, the primary challenge is managing the rise—diplomatic, political, economic, and, particularly, military—of great power rivals. Today, that is generally thought to mean China. Rogue states must be kept in line, but it is China that is of central concern. Thus a critical question arises: Will the United States deal with the rise of China the way a preeminent Britain dealt with the nineteenth- and early-twentieth-century rise of the United States or the way Britain dealt with the rise of Germany?

The central economic challenge for selective engagers is maintaining access to resources, particularly energy resources. That means the Greater Middle East must be added to the two ends of Eurasia as the parts of the world that matter most. It also means that nonstate actors, namely terrorists, as well as states must be dealt with. Unfortunately, it is not clear that its realist focus on states has left selective engagement well equipped for dealing with nonstate actors.

Selective engagement's proponents remind us that resources are scarce. Even a preeminent United States does not have unlimited resources at its disposal. That sense of limited resources is tellingly evident in the response of selective engagers to 9/11. They argue, first, that the United States should not have declared war on all terrorists with global reach and their state supporters, but on al-Qa'ida and its supporters—those responsible for the 9/11 attacks. Second, the United States should not have diverted its attention to Iraq.

## Liberal Internationalism

Liberal internationalists<sup>2</sup> would neither hoard U.S. predominance nor be unnecessarily sparing in their use of it. They would have the United States invest, share even, its predominance. It would be used for distinctly liberal ends—much as it actually has been, not just since the end of the cold war but since the end of WW II. Liberal internationalism holds out the promise of political and economic liberalism for all—if not immediately, at least in the long run. In principle at least, all three post-cold war administrations have been committed to building a liberal world order. During the Clinton era, for instance, “engagement and enlargement” was about enlarging the democratic community of free market economies.

The challenge for liberal internationalists is not only harnessing U.S. preeminence on behalf of their ambitious project but doing so without turning the liberal world order into an American imperial order. They seek to avoid that risk by employing an approach that is distinctly collective and collaborative. The cooperation that multilateralism and international institutions facilitate is the foundation upon which an enduring world order can be constructed. The transatlantic democratic security community, a community whose origins date to the height of the cold war, is the model for the liberal project. If such a community could be built during the cold war, why can it not be further developed and reproduced in other parts of the world now that the cold war is long past?

Liberal internationalists add nontraditional, transnational challenges and threats to the traditional, state-centric challenges and threats emphasized by selective engagers. Foremost, of course, as demonstrated by 9/11, is terrorism. Not far behind is the proliferation of weapons of mass destruction. Of particular concern is the prospect of terrorist acquisition and use of WMD. This and other transnational challenges such as drought, famine, disease, environmental degradation, and global warming cannot be dealt with by the United States on its own. Concerted international collaboration is required. America’s immediate response to 9/11—the Afghan campaign—would not have been constrained by liberal internationalism. Any broader assault on the scourge of transnational terrorism, however, would have had a more distinctly multilateral flavor. Regime change in Iraq, if attempted, would not have been entered into without meaningful international support and sanction. And a secretary of state’s hoped-for Adlai Stevenson moment would not have become a “Roseanne Roseannadanna” moment instead.

Globalization is one of the greatest of the post-World War II success stories. Broadening, deepening, and managing globalization is central to liberal internationalism. Today’s relatively open, liberal economic order wasn’t brought about by the functioning of market forces. It was created by states, with the United States in a leading role. Now globalization must be managed. Just as the United States took the lead in the construction of the post-WW II economic order, it must play a central leadership role in its management—and in its broadening and deepening. As the indispensable liberal power, the United States cannot retreat from this responsibility.

Yet the United States is not to go it alone. It continues to require the help of others. That help is best sought through the international institutions and regimes established since WW II. Liberal internationalists argue that the principles, norms, rules, conventions, and processes embedded in the institutions and regimes established to constrain state behavior are neither quaint nor obsolete. They are at the heart of international governance.

Liberal internationalists, like selective engagers, recognize that national resources are limited. America’s resources must therefore be pooled with those of others in collaborative efforts to meet transnational challenges and exploit transnational opportunities.

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2. Full disclosure: The author is a card-carrying liberal internationalist. For the numerically challenged: “Liberal” is not a four-letter word.

## Primacy

For the advocates of primacy, the answer to the question, “What is to be done with U.S. pre-dominance?” is easy: Keep it—and use it! Being first among equals may be good enough for selective engagers, but the advocates of primacy simply want the United States to be first—diplomatically, politically, economically, and, of course, militarily. America’s interests are best served by American hegemony. The United States must be without equal; the greater the capabilities gap (military or otherwise) between the United States and others, the better.

The primary challenge, consequently, is the preservation of U.S. preeminence. What was originally thought to be a “unipolar *moment*” must be perpetuated. That requires preventing the emergence of a peer, or even a near-peer, competitor. Primacy therefore shares with selective engagement a realist concern with major power rivals, whether China, the European Union, a resurgent Russia, or, perhaps further into the future, India. It also regards with suspicion any indication of major power collaboration that smacks of balancing against the United States. Rogue states are to be kept in line. Other than proliferation and terrorism, the nontraditional threats highlighted by liberal isolationists are of little concern to the advocates of primacy.

The immediate U.S. response to 9/11—the Afghan campaign that eliminated al-Qa’ida’s refuge in Afghanistan and toppled the Taliban—was on the mark. Primacy would not necessarily have required either the declaration of a broader global war on terror or a preventive war against Iraq, however. Both were discretionary. But neither would have required international support beyond a “coalition of the willing.”

The maintenance of U.S. economic hegemony and prevention of the emergence of an economic rival is no less important than the maintenance of U.S. military dominance. American economic hegemony means American leadership. It is U.S. leadership that is responsible for the relatively open, even liberal, economic order that exists today. Leadership by the world’s indispensable hegemon is required to maintain and manage that order. Multilateralism and institutions can be exploited to preserve U.S. preeminence and used to rally the support of others when it is desired.

## Empire

In at least some quarters, empire is all the rage today. It has made a remarkable comeback. Not that long ago, revisionist historians and their fellow travelers employed the term “empire” in their critiques of America’s cold war foreign policy. The term was also featured in cold war characterizations of the internal and external Soviet realm. Today it has been resurrected by a motley crew of assertive nationalists and neoconservatives out to transform the world. “Empire,” for its proponents, is a term that has shed negative historical connotations; it is now a term, and a reality, to be embraced, even celebrated. After all, America’s empire, unlike the bad empires of old, is exceptional, liberal, and benevolent. As Max Boot, the Council on Foreign Relations’ unabashed neocon imperialist, has asserted, “U.S. imperialism has been the greatest cause for good in the world during the past century.”<sup>3</sup>

For the advocates of American empire, the answer to the question “what is to be done with U.S. predominance?” is obvious: Build on it and use it. Whether intentionally or accidentally, the United States emerged from the cold war atop an empire—not simply as the sole superpower, a hegemon, but an imperial power. This is not mere primacy; it is primacy on steroids—and offensive realism and hegemonic stability theory gone wild.

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3. Max Boot, “American Imperialism? No Need to Run Away From Label,” *USA Today*, May 6, 2003, p. 15.

The challenge for the United States is to acknowledge (rather than deny) its imperial status and to embrace the responsibilities and burdens of imperial leadership and the maintenance of world order. With great power comes great responsibility. America's is an indispensable empire. Of course, maintaining world order means maintaining the American empire. For the new imperialists, the new world order is an American order. What is good for America cannot but be good for everyone else. There is no real distinction between U.S. interests and the interests of the rest of the world.

Globalization is revealed to be Americanization. Its management is the management of imperial order. Its broadening and deepening is the broadening and deepening of imperial rule. International economic cooperation amounts to the rest of the world following America's lead.

The array of principles, norms, rules, conventions, and processes beloved by liberal internationalists and intended to constrain the behavior of states are fine for others. But they cannot be allowed to constrain the United States. America must be free to do what is right. Sometimes that will mean standing alone and acting alone. If that is what is required to advance the cause of freedom and liberty, so be it.

For the advocates of empire, the post-9/11 Afghan campaign, declaration of a global war on terror, and preventive war against Iraq are all of a piece. Small wars and imperial policing are what empires do—and they don't need anyone's permission.

## By Way of a Conclusion

As even this brief survey reveals, U.S. predominance would be employed quite differently by the proponents of the five contending grand strategy visions. These strategic options are informed by divergent conceptions of U.S. national interests, priorities, and values, the challenges and opportunities confronting the country, and the resources that are, or should be, available. The quite evident disagreements about the wisdom of declaring a *global* war on terror and initiating a *preventive* war against Iraq in the wake of 9/11 especially should serve to dispel any lingering doubts that the choices entailed in the continuing U.S. grand strategy debate have practical, real-world consequences—consequences that can be measured in treasure and blood. Different choices lead to different courses of action and different outcomes.

During the 1990s, the Clinton administration less than coherently triangulated among selective engagement, liberal internationalism (its preferred alternative), and primacy. It managed to muddle through. Under the cover of liberal internationalist rhetoric, the Bush administration may well be muddling through primacy into empire, despite what initially appeared to be its selective engagement inclinations. The advocates of primacy and empire alike would have the United States embrace the challenges of leadership, the challenges of hegemonic or imperial responsibilities and burdens. But they have underplayed, if not neglected, the challenge of reassuring the rest of the world. The United States is a superpower unconstrained by the existence of another superpower. It doesn't miss the Soviet Union (nor should it). However, it shouldn't want the rest of the world either to come to miss the Soviets or hope for, and support, the rise of a countervailing power (or powers).





## Panel I

### Questions and Answers

Moderator [Dr. Lloyd]: All right, it's now the opportunity for you to ask questions. You can direct them in general to the panel, or you can ask specific panelists your question. You can also make a speech, if you wish. Over there—yes?

**Q. Professor Cooper mentioned towards the end of his talk about shifting back to a threat-based strategy as opposed to capabilities-based, and based on the projections that we saw from the CBO and his discussion, do we need to do that? Is that really more cost-effective, by doing that sort of approach to defense funding? I guess that's an open question to the panel.**

A. [Dr. Ross] I'll go after this one. It's sort of a pet peeve of mine. This administration has talked a great deal since it came into office about the importance of shifting from threat-based planning to capabilities-based planning. And now this is a new paradigm. A couple of things to say about that. First, I think the point that Richard Cooper made earlier this morning—with threat-based planning, there's a way of finding out how much is enough. When we had the Soviet Union, we did all these wonderful comparisons between Soviet power and U.S. power. Within Europe we did NATO-Warsaw Pact comparisons. All of us—or most of us, at least—are familiar with that and remember those things. There was always a way to figure out how much we thought we needed, making various kinds of assumptions about whether it would be in the offense or defense and the kinds of capabilities you need to take on the Soviet/Warsaw Pact, especially in the central front in Europe. Even after the Cold War ended, we had threat-based metrics to use. And we called it regional contingencies whether it was major theater wars or major regional contingencies. We said we wanted to be able to do usually two of these nearly simultaneously, and yes, you could argue or quibble about what “nearly simultaneously” meant. But again, that was threat-based force planning. And again, you could tell, since we had just fought a regional contingency in the early 1990s against Iraq, you could roughly tell how much was going to be enough. With capabilities there's no metric that tells you how much is enough. More capabilities are always going to be better. But a larger point, I think, needs to be made. We haven't really left threat-based planning behind because even—how do you know what kind of capabilities you need unless you're thinking about the kinds of threat or challenges that you might see in the future? And we still talk about threats. We talk about proliferation. They're just more generic than they used to be. It's no longer the Soviet Union. It's no longer Iraq or maybe North Korea under capabilities-based planning, but we talk about generic threats. And we still talk about regional challenges. We talk about rogues, right, and axis of evil out there. Well, those were the old regional contingencies. We're still talking about them. So it does make a difference for resources, because capabilities-based planning is open-ended. Threat-based force planning—it's possible to figure out how much is enough. And that's what defense planning is all about in the end, determining how much is enough because you don't have unlimited resources.

Moderator: Next question.

**Q. [inaudible].**

A. [Dr. Ross] My sense, we're probably arguing over both the size of the pie and how it's divided. And within the building of the Pentagon and across the services you're certainly



arguing about how the pie is divided. For me, though, I think you've got to go back to grand strategy, the alternatives I was just trying to run through. This goes back to the U.S. role in the world: how ambitious we want to be. These grand-strategy alternatives have resource implications. If you're a new isolationist, you don't need a very large defense budget. Four percent is way too big, probably four times bigger than it needs to be, because you're going to pull back. You're not going to restructure foreign bases. You're not going to have foreign bases. You pull back to CONUS. For selective engagement, you're going to be a little bit more ambitious, but you're still not necessarily going to be spending at 4 percent. That means my main defense resources either don't have to be spent at all or they can be reallocated to domestic priorities. The other alternatives I talked about, liberal internationalism, primacy, and especially empire, are all much more ambitious. Empire especially—you've got to fight imperial wars. You're going to be engaged in imperial policing. And the advocates of empire will say that's exactly what we've been doing since 9/11—fighting imperial wars and engaged in imperial policing, and there's going to be a lot more of that, and it doesn't come cheap—especially imperial policing. It's not clear that we have an army that's big enough to do the job. Forty thousand more might not be enough to do imperial policing over the long haul. We're stretched thin with just two contingencies, even though we've greatly reduced our presence in Afghanistan. Iraq is really pushing it for us. So I think we're both talking about the size of the pie and the allocation of resources within the pie. And I think that's important to keep in mind, and I don't think you can leave these sorts of big-picture grand-strategy questions out of that mix.

Moderator: Over there.

**Q. I was really interested to hear Mr. Greenwood allude to a couple of issues I'd like to hear him address in more depth, and that is, first, specifically the millennium challenge fund as a public investment in national security, and, second, the idea of phase-out of subsidies as a private-sector investment in national security.**

A. [Mr. Greenwood] Thanks. For the millennium challenge account, which was initiated by the president, I guess, now two and a half years ago in Monterey, Mexico, but only just recently funded, I guess, last year—and we're still hopefully very close to putting out the first program of that. I think it does relate to our national security. But for those of you who are not familiar with it, it is a new form of assistance which is based on the performance of the developing countries getting the assistance. A country is not eligible unless it meets and can pass certain criteria that we selected from the World Bank and other third parties—nothing that we ourselves determine, but using third-party objective criteria with regard to governing justly, investing in people—that is, what kinds of the percentage of GDP go to education, health, and an efficient running of the economy. And essentially countries compete for this money. The idea is to ramp up to five billion dollars. Right now, for this year we've asked for three billion. We got a billion—a little bit under a billion the first year, and a little bit over the second. And what we hope to get out of this, it's basically assistance which is being targeted to and used as a catalyst for growth, and what we want to try to get away from is the old “throw money at a foreign policy problem” and instead have at least one very large part of our development assistance be exclusively to promote growth in developing countries. And the reason that's important is that it gives countries an incentive to improve their governance, and improve their accountability to their people. And as I mentioned before, I think that's one of the major problems we have with terrorism. Poor people don't become terrorists automatically. I mean in fact, as you know, most of the hijackers from 9/11 in fact came from middle-class families and were fairly well to do. Obviously bin Laden himself is a millionaire. It's not poverty per se. It's the sense of

historical grievance. It's the sense of frustration, a sense of powerlessness in their societies which feed terrorism, and through growth and through development of both economies, as well as governments that are responsible to their people, we hope to address that, and so it does very much relate to the president's agenda for fighting terrorism. Phasing out subsidies is an issue, because it goes to the efficient allocation of resources here in America and our ability to keep our economy vibrant. It's a very sensitive political issue. . . . And we've chosen to protect [some industries], and that's a democratic choice that our country has made. But it does mean that we have to use resources for that. It takes resources. We have offered in the global round of trade talks—what's called the Doha Round, because it was launched in Doha about two years ago—to cut our agricultural subsidies quite significantly. This is essentially a twofer for us. One, we get the efficiency that comes from less subsidies, plus, obviously, less of a taxpayer load or burden, plus we use it as a lever to get other countries—the EU and Japan, Korea, all have very high subsidies for agriculture, as well as trade barriers—as a lever to get them to reduce their trade barriers and to reduce their subsidies so that we have more efficient trade. And that also helps for development, because developing countries tend to be better in agriculture. And right now one of the constraints on their development is, first, the lack of market access in many areas because of trade barriers, as well as trying to compete against rich countries who can subsidize their farmers. And so again, that's both an economic benefit as well as a benefit for development, and through that to our national security.

**Q. Dr. Ross, back at the Current Strategy Forum in 2001, the whole thing was based on national missile defense pretty much at that point, and the discussion of U.S. hegemony seemed to be very specifically appreciated as a given stated fact. Then in the Current Strategy Forum 2002 obviously things were very different. National missile defense was on the back burner. It was all about global war on terror and homeland defense and security. Do you believe there really is the same degree of U.S. hegemony now as there was at that time? And where do you project we go forward in the grand scheme?**

A. [Dr. Ross] I think if you look at the indicators of what I've called U.S. preeminence or U.S. predominance, I don't think you're going to see a whole lot of difference between 2005 and 2001 or 2002. During times of the Current Strategy Forums you're talking about, I don't think the U.S. is any less predominant now. I think what you see with things like 9/11 and earlier efforts of al-Qa'ida to go after U.S. assets and U.S. citizens in various ways—whether it's embassies or U.S. ships—is implicit acknowledgment, explicit acknowledgment that these adversaries, a nonstate terrorist actor, can't take the U.S. on directly. It has to go at it indirectly, and the military calls this an asymmetric threat. And that's not surprising. Empires over time, hegemonic powers over time, major powers over time have dealt with these kinds of threats. These asymmetric threats are not new threats. No weaker power or actor is going to take you on where you're strongest. So it's going to try to determine what vulnerabilities there might be and go after those vulnerabilities, or perhaps create vulnerabilities. And one of the things we've been doing, obviously, since 9/11 is trying to address those vulnerabilities. We created a Department of Homeland Security. So I don't think that 9/11 and what's happened since is an indication that the U.S. is any less predominant. What we're seeing is simply yet again an example of how a major power is targeted by those who are discontented but can't take on that major power directly.

**Q. This question is for Mr. Greenwood. It appears, and critics say, that in the last decade or two diplomacy has taken far less of a role in forming our policy toward the world. I'm asking if you think that the 16 percent of our budget we spend on military will be more effective if we spend not 1 percent but**

**2 percent of our budget on diplomacy in the State Department. Asked another way so that the answer is specific, how would the State Department spend an additional 1 percent of the national budget?**

- A. [Mr. Greenwood] We've got some old embassies to rebuild, so that will be one place to start. Actually, to address the first part of your question, I think because of the various—actually, let me take one step back, because it goes to these categories that Andy has laid out. This president has decided to use the American influence that comes from both—well, in particular from the projection of military power in a very forward-leaning way. I mean, he wants to use American leadership in order to both protect our interests, which he sees as tied to making the world a better place, but it fundamentally comes down to protecting our national security interests. And I raise that only because I'm not sure where that fits in here. I mean we're obviously—if it wasn't for the word *liberal*, liberal internationalists would have been a great word that I could have aspired to. The *liberal* part bothers me. But where this administration is very internationalist and willing to use our leadership around the world, that does definitely make it different from the previous administration, in particular the first Clinton administration, in which we were—I mean in the post-Cold War period—clearly a hegemonic power and, but not really that interested in using that leadership internationally, much more interested in the domestic issues, and that was the choice they made. Nine/eleven obviously had a lot to do with the change, but I think that even as—this president even came into office, even before 9/11, with much more of a sense of a leadership role that we had to play in the world. And we played that not just through military operations. I mean, we've had a very vibrant and a very aggressive diplomatic effort from the beginning. The way that—for example, I mean, Asia, which is what I know the most, and our relations with China have developed, have really fundamentally been—particularly after the spy plane incident—had been diplomatic in nature and have taken a relationship which was very rocky and made it a much more sound relationship. That I have to give Secretary Powell almost full credit for. I mean he was the one who did that. And so it was, again, a diplomatic effort. In terms of whether we can use more budget, of course the answer is yes. Whether we need a doubling of our budget, I mean I'd have to say no. I don't think we could spend twice as much as we spend now. We would like to see more development assistance. We have, as I mentioned, a five-billion-dollar target for MCA. We're less than that now, partly because of slowness in getting—we're still ramping up that program. But at some point we're going to want to see the five billion per year, and that will be an important increase in the foreign affairs budget. And that will be important for our fulfilling the promise that we've made to developing countries—that if you do the right thing, we'll be there with the financing for you to help you make this happen. And that's the pledge we made to them, and we need to keep that—and then in other areas that I'm not as familiar with, nonproliferation programs and things, again, very vital that we're going to need to continue to fund. But I don't think a huge reorientation of the scale of magnitude of 1 percent versus 16 percent is really the change. And that's why I don't see it as this is a competing priority. We need to do better with what we have, and we need some increases, but we don't need a change of a scale of magnitude of that sort.

Moderator: Thank you. In the far corner there?

- Q. Thank you. I will address my question to the first speaker. It's hard to see your name, sir, from this angle, and I apologize for that. It is not that uncommon a point of view, at least throughout America's adversaries, that the United States is defending external oil resources. I know that many of the distinguished guests over here have traveled throughout Europe, and many**

**of them have completed their service or deployments within Europe. In the face of globalization, if we just theoretically made an experiment and increased the price of gas in America, just to the European level, which is roughly speaking just twice, could you speak a little bit about how it would impact both internal affairs in states and currently related to world security? Thank you.**

A. [Dr. Gilmore] First of all, I have to warn you I'm the only assistant director in CBO who isn't an economist. Some people think it's a good thing, and some people not. So I'm not as well equipped to answer that question as some of my colleagues might be. There are budget options that CBO has published every couple of years for the last few years that consider increasing—put forward the idea of increasing taxes, for example, on petroleum products. Now all these options are not recommendations. They're just options for people to consider, and they're argued pro and con. Maybe the most direct way to address the question is to note that the projections that I showed you—the long-term projections that I showed you didn't capture the increase in oil prices that have occurred recently, but the more recent ten-year projection that I showed you does, although it assumes that over the long run prices will decline somewhat, based on what's going on in some of the futures markets now. But the long-term projections that I showed you really wouldn't change noticeably at all if we captured the recent increases in oil prices, which were quite significant relative to where they were at a couple of years ago. So I guess it goes back to this point that Professor Cooper was making. There's a lot of resilience in the economy, and there are a lot of adjustments that are made, and yes, there would be the potential for somewhat higher revenues; but that kind of increase in taxation or that kind of increase in oil prices really wouldn't affect that significantly on most of the projections that I showed you. So that's sort of an indirect way of answering your question. That's about the best way that I can do it.

**Q. A question for both Mr. Greenwood and Dr. Ross: can you talk about where we are if the current administration is more towards either primacy or empire; where the UN fits in at this point? Where the United Nations fits in, where the U.S. is with the United Nations?**

A. [Dr. Ross] The administration spokesman defers to—what—all he knows is a critic, but that's all right.

A. [Mr. Greenwood] I want to come in after.

A. [Dr. Ross] I know. It's always—I can still get the last word. Where does this administration fit in? I think that's an interesting question. And to put that into context, let me go back to the previous administration. I think the Clinton administration came in wanting to be liberal internationalist. And for the most part they didn't call it *liberal internationalist*, but that's the term. *Wilsonian*, perhaps, might be a term that they'd prefer, but I think Tony Lake, especially, came in wanting to do that; there were domestic obstacles, and there were international obstacles to the U.S. playing a liberal internationalist role during the 1990s. And there were resource constraints domestically. And there were political restraints, because they lost Congress. And that made it more difficult to follow a liberal internationalist agenda, which is a very ambitious agenda, like this administration's. But remember, for them, for the Clinton administration, what Tony Lake and others talked about was building a community of free-market democracies. And this is what U.S. strategy was all about. It actually sounds a lot like the Bush administration. The means, however, I think were somewhat different. The Clinton administration was pursuing much greater emphasis on multilateralism than I think that we see now—not that we left it behind, but I think more emphasis on that during the 1990s than we have



now. The Clinton administration, despite its predilections towards liberal internationalism, had to be selective about it, but also at the same time talked about what amounts to primacy. The U.S. was the indispensable nation, according to Madeleine Albright. And a great deal of emphasis on U.S. leadership—i.e., U.S. primacy.

This administration—I think that we’ve actually seen a shift, and I think 9/11 did make a difference. It’s allowed people within the administration—sometimes they had been characterized as a sort of nationalist. Sometimes they’re characterized as neo-conservatives. And I don’t want to get into a debate about what those terms mean. But clearly we’ve seen this administration, especially since 9/11, be very assertive about the U.S. role in the world. I don’t think that’s what they came in wanting to do. Remember during the campaign, then-governor Bush talked about a very—the U.S. pursuing a humble foreign policy. If you take a look at some of those things that Condi Rice talked about and wrote about—she had a foreign affairs article before the administration took office. It sounded a lot like selective engagement with a dash of primacy. Since 9/11 I think that you’ve seen a very assertive administration, quite willing to stand alone. It’s clearly primacy, and some critics I think will say that we’re tending in the direction of empire. Or if not imperialist behavior, at least imperialist behavior in the way we’ve dealt with especially—you asked about the UN; I’ll finally get to it—especially in how we’ve dealt with the UN.

Again, critics of the administration would say that in the run-up to the Iraq war—sure Bush and especially Colin Powell went to the UN, to the UN Security Council for support. But look at how they went to the UN. We went saying we’re going to take down Saddam Hussein. We’re going to deal with the WMD programs that we think are there. Colin gives a long presentation before the UN laying out what we thought was the evidence of existing ongoing WMD programs. But the message all along was, “This is what we’re going to do. This is why we’re doing it. We’re going after Iraq. We’re going to take down Saddam Hussein; do you want to come along for the ride? Fine. But we’re doing it with or without you.” And there’s been a lot of this sort of you’re either with us or you’re against us. And to some extent maybe that’s justified after 9/11, but you’ve got to be careful about, I think, how the rest of the world is reacting to this. The U.S. is the only superpower, ever since 1989 after the Soviets went away—the only superpower. We’re really happy about that. We don’t miss the Soviets. And it seems to me we’ve got to be careful about not letting the rest—not putting the rest of the world into the position where they might miss having another superpower around.

- A. [Mr. Greenwood] Just two points. One is—and you mentioned that the current administration is somewhere between U.S. primacy and empire building. And I would dispute that, and that’s why I mentioned this earlier, is I’m not sure where you put the administration. Certainly somewhere between liberal internationalist and U.S. primacy in my view. I guess the major distinction, though, is that, at least as Andy described it, the idea of U.S. primacy and the idea that a government would be working hard to keep that primacy—it’s not the primacy per se which the president and administration care about. It’s the fact that since we have that primacy, we have a responsibility both to our own people and to the world to fulfill. And it’s not the primacy itself that’s the end. It’s how you use that and how you use American leadership around the world. And I think that the current administration does differ, but I don’t want to get into partisan since I worked for both administrations very happily. But there was, I think, a difference of the weight of the foot, in terms of the two administrations on that point. In terms of the UN, I think we have wanted to work with the UN. We still want to work with the UN. We do work with the UN. In Iraq, just to keep in mind, we did work with the UN for twelve, thirteen years, you know, of resolution after resolution, all of which Saddam Hussein

ignored. And it wasn't a sudden decision to take care of the situation the way we did. And so we did—we tried to work with the UN on that. As was said, this is an administration that is willing to stand alone when they think that it's the right thing to do, and so in this particular case that's—we didn't stand alone; we had a very large coalition. But we did go without the UN's final blessing, although as you know we believe that earlier UN resolutions covered our military operation.

But looking at today, we are working with the UN and with our partners in a number of areas. First, partners—North Korea—we're working very closely in the six-party talks. Look at the Iran nuclear talks. We're working very closely with the Europeans—in fact, letting the Europeans take the lead; in North Korea, letting the Chinese and the South Koreans take the lead. So we are—we aren't doing things unilaterally all around the world. We are working with our friends and partners to take care of very serious problems. With the UN I think the most recent example is tsunami relief. We've worked hand-in-hand with the UN and the humanitarian relief part of that. We worked very hard to put them in a leadership role in coordinating that, even brought them and our military forces together to coordinate the humanitarian relief effort. It's just kind of a very concrete way of working very closely with the United Nations.

- A. [Dr. Ross] [inaudible] [To follow up] just a second. Not to get the final word, but to reinforce, I think, your point—obviously we had differences about Iraq with a lot of other countries around the world within the context of the UN, and the UN Security Council and our NATO alliance relationship. But I think that even while we had those disagreements on Iraq, within the UN system we continued to work with other countries on a whole range of issues. And we continued to work with the French and the Germans, our toughest critics on Iraq, on a whole range of other issues even while we disagreed strongly on Iraq. And I think that's to the administration's credit. And also the administration to some extent, I think, is just recognizing reality—that to solve some of the other issues that we care about, we have to work with these countries even though we disagree on something that's very important to us.

- Q. Thank you, just one quick follow-up question. Do you think we would be better off in the world if there was another superpower, sort of as a balance and buffer?**

Moderator: There's several other hands up, so I think we're going to pass by that one for now. Way in the back, can you use a microphone by grabbing one?

- Q. My question is to Mr. Greenwood. And my question is regarding an issue which concerns the U.S. economy as well as the economy of my country and . . . other emerging economies, and that is the issue of outsourcing. Now, ostensibly, outsourcing seems to be an activity which results in loss of U.S. jobs and loss of U.S. revenue, but the competing school of thought states that since outsourcing is taking place on jobs at the low end of the spectrum, hence actually it's freeing up funds for the U.S. companies to put those funds in R&D and for ultimately the U.S. to gain the technological edge which it has. So the question is, how does your outsourcing jell into the U.S. economic focus? Is this trend likely to continue? And second, is this beneficial for the U.S. economy and for other economies? I mean is it a win/win, or is it a win/lose situation?**

- A. [Mr. Greenwood] The last part of your question is the easiest to answer, because I think it is a win/win. The information technology revolution has obviously changed lots of things and has been a huge benefit for the United States—the major reason we've had very large productivity increases through the nineties and into this century. And it will

continue to be important. And part of the information technology—one of the things that has come out of the information technology revolution is the ability to outsource services such as call centers and accounting and even software writing. This is not necessarily a new thing. In fact, I remember even twenty years ago, when we used to do translations of UN documents—I was working in the UN—with a UN organization at the time. And they would send the translation. They would send it into another time zone as time zones went around the world so that you could complete a meeting one day, and then the next morning you would have a completed translation done by a number of translators around the world. And by—those were fax machines. So this isn't necessarily a brand-new thing. But obviously information technology makes it a lot cheaper. It makes it a lot more efficient to do that kind of thing. And it's obviously a huge benefit for countries that have high levels of education, have good governance and companies looking to take advantage of that, and India is one of those countries that's been very successful in doing that. A number of entrepreneurs have been quite successful in getting into that business. And so it's, I think, just one of the ways that our economies are becoming more integrated. We're not—it's a market phenomenon. It's not—this government is not out there promoting outsourcing. We wouldn't do that. It's just simply a market phenomenon that I think overall leads to greater influence—I'm sorry, greater efficiency and growth. I would say that of course America benefits from a lot of in-sourcing because the same revolution, of course, means that we also do that kind of work using the information technology, using the Internet and using new information technology, of course, as service exports from America. And of course our service export—that, unlike our account in goods, is in surplus. We export more than we import in terms of services. So where this is something that we're good at, we have a comparative advantage in, I don't think we are under threat.

Moderator: Over here?

**Q. Yes, I'm wondering if any of the panelists would want to comment on what I'm going to call the repackaging of American strategy that has been evident in the initial weeks and months of President Bush's second term. I am very struck by the fact—and several journalists with whom I've spoken to lately have acknowledged this as well—that the White House almost never makes reference anymore to the National Security Strategy document of September 2002. It was a very maximal document. It talked about enormous dangers to the United States and so forth even as it also made reference to some possibilities about amicable great-power relations. So my question would be, (a) what happened to the national security strategy in the United States? Does it apply in other cases? And if it doesn't, what is the alternative? Because the fundamental question, it seems to me, is that in President Bush's inauguration speech, in Condi Rice's confirmation testimony, reference was clearly made to those that were regarded as part of a legitimate order, a trend towards democracy and freedom. It's all well and good. The question becomes, under what circumstances and how do you deal with the variety of those that you deem outside the pale? Because, to be frank, as I have looked at the world, as I understand it, the only case I can identify of where states formerly regarded as rogues are now regarded as states with whom you can deal fully are two cases where the United States overthrew foreign governments—that is to say, in Afghanistan and then in Iraq rather. And then you know, with some argument about Libya—although, frankly, Libya, other than giving up a few chemical weapons and bits and pieces of nuclear technology not really in the weapons program—is now free to go about its business as it would have wanted to before, except now it can sell its oil. So**



**what applies here as a grand strategy for the United States, which may suggest some constraints on what we do, but it's not clear to me.**

- A. [Mr. Greenwood] To accomplish what we've set as our national foreign policy objectives—obviously national security, War on Terrorism—and as part of that, we are pushing for and promoting democracy, economic growth around the world. And I guess I'm—we don't have as the number-one tool that we pull out of our pocket military invasion. I mean that's a very unusual situation, and it's not a tool that we used very much in the past, and we probably won't be using it that much in the future. The main way we do this is the way we do most of our work, which is the president, the secretary of state, and the rest of us go out and we try to push people to do these things. And we have programs, and a good example is what we're trying to do in the Middle East now. We have something called the Broader Middle East and North Africa initiative, BMENA. It's something that the president launched in [inaudible] at the G8 meeting last year. And it is aimed at trying to promote democracy, market economies, growth in the Middle East, and—the greater Middle East, which includes—we include Pakistan, Afghanistan, and North Africa in that definition. We're doing it with a number of, again, traditional tools of diplomacy and assistance and dialogue. And you say we may not have success in doing that. But I don't think I would agree. I mean, it's just only beginning. We've seen Libya. We've seen—I mean, look at the Middle East today. And it's really quite remarkable. Now, maybe—I don't want to overstate what's happened, because there's obviously a lot of events that happened in a very short period of time, and you can over—you can exaggerate the significance of it. But that's a fact—and the progress that's being made between Israel and Palestine and the progress that's being made in improving the governance of the Palestinian Authority. You have the assassination of Hadidi and what's happening between Lebanon and Syria. Again, it won't be straight-lined, but it certainly is improvement. You have Mubarak announcing new, more open elections in Egypt. Again, these aren't all linked to us. This is a lot of what's happening in the region. But we're trying to be a positive force, pushing and helping those countries move forward. And I think that's leadership, and I think that's what the president means when he talks about promoting democracy and growth around the world.
- A. [Dr. Ross] I think that's an interesting set of observations and questions [posed in the question]. And I think only time is going to tell whether this repackaging is real or whether it's simply a repackaging. At this point, it sounds like a kinder, more gentle U.S. primacy than what we saw, especially with Iraq during the run-up to Iraq and the conduct of the Iraq war. And I think you pointed out yourself that the national security strategy reads as if it was written for Iraq. How many more cases like this are we going to see? Well, you know, thus far we're handling North Korea very differently than we handled Iraq. And we're actually—the papers this morning—there's evidence of the fallout of how we handled Iraq coming to the forefront already. And the Chinese have come online saying, well, we've got questions about your intel on North Korean nuclear capabilities. That's not too surprising after we didn't find a whole lot in Iraq, which we obviously laid out as a primary justification for going into Iraq. I read the repackaging as sort of a kinder, more gentle U.S. primacy and maybe a recognition that, yes, the U.S. is a superpower unconstrained, but existence of no other superpower—we like that. We don't miss the Soviet Union, and the administration is beginning to recognize that we shouldn't want the rest of the world to miss it, either.

Moderator: We're now coming to the end of the time for our first panel.



# Confronting the Challenges to National Security

Walter Russell Mead  
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Thank you for the invitation. It is an honor to be invited to address a group like this and at a place associated with Admiral Mahan, who set the gold standard for strategic thinking in an American context. It's a little intimidating as well. I want to express how grateful I am that you've decided to read *Power, Terror, Peace, and War* right before the paperback comes out. Had you only waited a few more months—but no, you all bought the hardcover edition.

What I thought I would do today is give a quick tour of the big picture of what the

United States is trying to do in the world, how I see where we are in that in some of the big areas, and then in the Q&A we can get a little bit more specific. So I'll try and move through this big-picture introduction as fast as I can.

It's interesting to try to think about what the American project in the world is, what our foreign policy is about and what we're trying to do. For one thing, it's interesting because we seem to be trying to do a lot of different things, and the answer you'll get about what we're trying to do will be very different depending on whether you ask Amnesty International, the Republican Senate Caucus, or the Marine Corps. And the fact is, we're trying to do a lot of things simultaneously, because we are a complicated country. Microsoft is trying to do one thing in the world; the Department of Defense is often trying to do three or four things of its own; the State Department has a project that may or may not cohere. The same moment we're trying to be real nice to Pakistan to gain their cooperation on the War on Terror, we might be releasing our annual report on human rights that calls them dirty evil dogs. So our foreign policy is extremely contradictory. Looking at American foreign policy is a little bit like trying to look at the track of a tornado across a landscape. But I think there is a method in our madness, a kind of pattern to what we do even though we have all these contradictions.

Some people say we're trying to build an American empire. You can use that word, but I think it creates as much confusion as it does clarity. I sometimes like to call our American project *La Cosa Nostra*—our thing that we've been working on. And the thing about our thing, *La Cosa Nostra*, is, we got it from the English. What we're basically doing in the world is taking over the old business of the UK at being what Colonel Edward M. House called the gyroscope of world order.

Britain used to try to maintain this international system. We are doing the same thing in more or less the same way. We've altered it somewhat so that it fits the new times of the twentieth, twenty-first century. And it fits our own values and interests in a way that Britain's didn't. But

still, if you look at the world today, what you would see is a kind of Anglophone Order version 2.0. And so, what are the clear pieces of this?

First, the foundation of American strategy is and remains strategic dominance in the Western Hemisphere. We just do not want to be dealing with great-power rivals in our own hemisphere. And that gives us much more freedom of action in dealing overseas.

The second keystone element of what we try to do under Republicans and Democrats in the nineteenth century and today is to maintain a balance of power in the chief geopolitical theaters of the world, or what we believe to be the chief theaters. That would be the fringes of the Eurasian landmass—East and South Asia on the one hand, Europe on the other—and then the oil patch in the middle. They are seen as vital interests of the United States, and we do not want to see a rival power or coalition gain control of any one of these. We can dominate them if necessary, because we can be trusted, and we know that. But we have our doubts about other people. You look at American foreign policy in Asia, and you can see going back practically to the War of 1812, we've had a balance-of-power policy there. First we didn't want England to gobble up China and the rest of East Asia the way it had already gobbled up India. So we started working with the Thais, with the Chinese, and with the Japanese. This is why Commodore Perry went to Japan. He wasn't just wandering over there and got lost. We had a foreign policy reason for him to be there. And when Secretary of State Daniel Webster decided he should do that, there were reasons. And it was that we wanted to encourage these Asian countries to develop, to open up, to become more powerful, and to modernize so that the British couldn't take them over. And then, when Japan rose to be the strongest, we started balancing against them. When, after the end of the Second World War, we didn't have to worry about balancing against Japan, we started balancing against the Soviet Union. Now our central concern is pursuing a balance-of-power policy with China. It's a very consistent explanation of what we've been doing, and my guess is it's what we'll continue to do.

Now this second element, the balance-of-power objective, requires a basic force structure. It means that we have to have the ability to project force globally. In order to do that, we have to have a secure command of sea and air supply lanes. And that has certain consequences, both in our diplomatic strategies and in our priorities for military planning. Again, I think this goes back pretty far. But those are the first two elements.

The third element is a little bit different. Once we have this balance of power in all these places, and once we've kept the Western Hemisphere safe from any great-power rivals, then we start thinking about building a global economic and trade system that will keep us rich enough so we can afford the military investments that are required to maintain the system. We try to have a system that pays for itself in that way. And again, this is what the British did. Their rule over the sea gave them command of world trade, which made Britain rich and enabled it to keep its navy big, until finally the whole thing grew a little bit too big for the British to keep up.

The fourth thing we do is use the trading system as an element in international politics, having built it ourselves. And we do this in two ways. In peace, we use the system to seduce and entangle other countries into accepting our system. For example, take China: when China thinks about, "Do we want to challenge the United States for world domination?" they'll conclude, "Well, you know, maybe later, we're getting richer now. This economic system is working for us." And at the same time they'll understand, "If we had a confrontation with the United States, we would instantly have mass unemployment in China, and all of our factories would close because we would have no one to sell all this stuff to. Our entire economy would be disrupted." On the one hand, this economic system that works for other countries as well as it works for us gives them positive incentives to cooperate and maintain a peaceful world, and it also gives them negative incentives not to break with us.

But there's another element to this exercise of power as well. Should other countries go the route of confrontation, we deny them the access to the raw materials and to the markets that they are used to and, to some degree, have grown to depend on. If you look at German and Japanese strategy in the two world wars, much of it was about access to oil. And a lot of the bad strategic choices that both countries made, including the attack on Pearl Harbor, had to do ultimately with questions about oil. Having integrated these countries into an economic system where they were used to depending on the flow of goods, investment, and raw materials, America used that system as a weapon of war by cutting them off while maintaining its own access to such necessities.

This is one of those Anglo-Saxon power secrets that the British passed on to us. This Anglo-American system has been producing steady victories since the late seventeenth century, when the British went to war with the French in 1689, after the Glorious Revolution.

Finally, you bubble-wrap the whole thing in soft power. That is, you have a kind of an ideology. You make the system attractive to other people. One fine day, everybody wakes up in the morning ready to hate America. Then they look at a bunch of Iraqis waving purple fingers for the TV cameras and dancing in the street, and they just can't hate America quite as well as they could the day before, even though they want to. You try to wrap this all up in an ideology that appeals to other people. And we've done it in terms of institutions. We've done it in terms of promoting goals of shared prosperity. One of the very important things that the U.S. did after World War II was, we said, "Hey, we're not like the Europeans; we don't believe in colonies; and we want all the European countries to decolonize; and we support independence for developing countries."

It's a very simple foreign policy, in a way. It's just five things. We've been doing it, and the British have been doing it since about 1689, and I think we've been getting better at it through the years. I don't think this is going to change, certainly not through the end of my career. I suspect not through the end of most careers here. I think we are going to continue to do this thing, do our thing in the world.

So that's our project. What's the state of it? What are the threats to it? What are the vulnerabilities that we face? What are the assets that we have? Now obviously I'm not going to be able to go through this in tremendous detail up and down the line. But I'll try and touch on a few of the main features. And then we can get into more of a discussion.

First of all, let's look at a kind of balance of power. Or let's look at the first two elements, Latin America and the balance of power. Latin America I don't see for the foreseeable future as a threat, in the classic sense of another great power coming in. There are some things we have to keep our eyes on in Latin America. I don't like what's going on in Venezuela. I certainly don't like what's going on with the general social, economic, and political morass associated with the war on drugs and the disorder that we're seeing in parts of the region. But Latin America to some degree is a watched pot that never boils. And if we can just remember to watch the pot and make the kinds of policy interventions that are necessary, we can keep this thing from causing a crisis. But we do need to do a little bit more than we're doing there.

Now let's go into the balance of power. Obviously the first area we're worried about today, the first priority that any of us have strategically in the near term, is the Middle East. And how are we doing there? It seems to me that we are doing reasonably well. There are a lot of problems there. The cost has been very high. With the benefit of twenty-twenty hindsight, I think all of us could make a list of things we could have done better. They might all be different lists, but we could all make a list of things we could have done better since September 11th. But in general we seem to be doing a little bit better now. The best news out of the Middle East is that our ideology is working there, in a part of the world where anti-American feeling is stronger than just about anywhere else; where there are people who are so angry at the United States, they've



become almost rabid when you talk about the subject. And I know, because I've been in discussions. I've done a lot of public diplomacy for the U.S. State Department all over the Middle East, and I've spent long dinners with Arab nationalist intellectuals who had a lot to say about the foreign policy of the United States. But even in this kind of audience, the notion of democracy and that the American system is something that promotes the idea that you should get to decide who rules you in a transparent process has had remarkable success. Who would have thought in Afghanistan, Palestine and Iraq—now it's looking like Lebanon also is headed this way—that these ideals would have such power, but they do.

And that is the best news for us. It does not mean that everything is going to work out beautifully and we'll soon be able to wash our hands of the region and go back to sleep. Anybody who thinks democracy—bringing democracy to a troubled part of the world—is a recipe for American popularity just has to go to France and find out how well that works. But nevertheless, it's an extremely good sign.

The worst news for us in the Middle East right now is that their ideology hasn't stopped working. Well, one of theirs has. Our enemies in the Middle East have two ideologies. One is the kind of secular fascism of someone like Saddam Hussein, who really wanted to unite all of the Arabs under him in one party—one state with an iron will. And I think that kind of pan-Arab nationalism is coming to a halt. In some ways it was the weakness of this ideology that helped open the door for the Islamic resurgence throughout much of the Arab world. It's been tried. It hasn't worked. These latest failures are just drawing a line under that.

But religiously based fascism is very much alive—and by the way, it's not just in Islam that you can have fascist movements in the world of religion. Think of Spain and how Franco tried to justify his regime as kind of the ultra-Catholic regime. It's not just Islam that produces this movement. But you have an Islamic fascism. It has a lot of appeal. It can cause people to form networks of opposition. There's a real danger in places like Saudi Arabia that this ideology could take state power, and that would have dramatic consequences.

But the second piece of good news is that American power in the Middle East is now seen as greater than it was before we invaded Iraq. There are a lot of people who said America is now bogged down. We've lost our moral prestige in the Middle East. We're going to be weaker in the Middle East. They're going to pay more attention to Europe, and so on. It's just not working out that way. You look at Condi Rice—she takes Egypt off her list of places she's going to visit on her next diplomatic trip, and suddenly Mubarak is rewriting the country's election law. Then there are the events in Libya. There's Syria's having to move toward withdrawal in Lebanon. People in the Middle East, whether they like us or not—and a lot of them do not like us—find that it is more necessary now to listen carefully to what we are saying. Our power has not weakened in this region. It has to some extent strengthened.

And then people will tell you we're committing a lot of resources there, and that as a result we could be overstretched. I say, at least we're committing resources in a part of the world that matters to us. One of our problems in Vietnam was, we were making a major investment of resources into what was essentially a peripheral part of the geopolitical struggle. And it was obviously peripheral in that when we left Vietnam under the most humiliating possible circumstances, almost nothing happened in the balance of power in Asia in terms of our position. In fact, to some degree it got a little better. But Iraq, Saudi Arabia, and Iran are vital to the United States. If you're going to have to spend resources and strength, these are the kinds of places where you want to do it.

Looking ahead, the biggest threat that I see in the Middle East would be Iran. We are very far from resolving that situation. I don't see much chance for the current round of negotiations to work. I'm reminded of something Teddy Roosevelt once said about diplomacy. He said

diplomacy is the art of saying “nice doggie” while you feel around behind you for a stick. And I see a lot of that as we engage both Iran and North Korea—“nice doggie, nice doggie.” So I don’t think these situations are anywhere near to working themselves out yet.

People look at Europe and say, “Isn’t there a tremendous vulnerability there?” They believe the Europeans are going to build this new powerful European Union, and they’ll be the superpower of the twenty-first century. I don’t think so. And I don’t think so partly because of demographics; the population is going to be shrinking. I look at their economic situation, and I don’t see a lot of appetite for greater military spending. I look at their talk of a common European foreign policy, and I’m very impressed, until I realize that the Germans are saying, “Well, we need another German seat on the Security Council.” I would argue if there’s going to be one European foreign policy, why on earth do you need a seat on the Security Council to just repeat what everyone else will be saying? Then what they will tell you is that it’s ridiculous to expect Europe to agree on its foreign policy any time soon, and so Germany does in fact need to have its own seat.

When you scratch beneath the surface, a common European foreign policy is not going to happen any time soon. In terms of what we need to do in Europe, we need to stop irritating them unnecessarily. I’m glad to see the president, secretary of state, and even the secretary of defense saying that the ways of the old Bush administration are over. There are some people in the European elite who would like to use public anti-Americanism as a way to whip up support for trying to build an anti-American Europe. I don’t think it’s our business to make their job easier.

Then I think we should also continue to urge expansion on our friends. And I think Ukraine should join Turkey in the queue to the European Union. I don’t mind talking to the Algerians about the possibility that their country might want to follow the path of Turkey into NATO and then into the European Union.

There exists a classic balance-of-power problem in the Far East, the geopolitical theater that engages us all the most in the long term. We’ve got a single large state with ambitions for some kind of hegemonic role. It’s not clear how far the Chinese themselves will want to push it. However, they’re not raising their defense spending 12 percent per year because they’ve completely written off all geopolitical ambitions. We have to think about that and prepare for various eventualities. The danger is that China’s preparations may force us into preparations that make conflict more likely, or vice versa. We would clearly both lose if it went to confrontation, so we want to avoid that.

What do we do? Fortunately for the United States of America, we do have a hole card in Asia, and the name of the hole card is India. My view—and I think the view of many people who look at American foreign policy—is, if you’re going to have nuclear superpowers in Asia with populations of more than one billion, it’s better that you have two of them rather than only one. And while I don’t think the United States or India is ready for a formal military alliance, I think promoting India’s economic development and working cooperatively with India on matters of mutual interest is a vital interest of ours. One of the big differences in the politics of the twentieth century and the twenty-first century will be that, in the twentieth century, the Washington–New Delhi relationship counted for almost nothing in world affairs; in the twenty-first century, the relationship between Washington and New Delhi has the potential for being one of the great pivots of history. We need to get it right. And in response to all of those people who worry about outsourcing to India and call centers in Bangalore, I would say it is a little bit late for that. Once we’ve allowed China to develop toward great-power status by access to our markets, we simply have no choice. We must go ahead and give India the same opportunity to develop. I think it’s a national security interest that we do this. And again, if you think about it, India is a country that has two geopolitical nightmares. One is Islamic fanaticism uniting the Middle East and then trying to export that ideology to new territory. India has already been conquered once by the Muslims. That’s what was happening when the British came in and interrupted the conquest.



The other Indian geopolitical nightmare is that China would become a hegemonic power in Asia. By an odd coincidence, those are *our* geopolitical nightmares.

Finally, I want to talk about the trade and economic situation. Remember, we tried to build a trade and economic system that allowed us to afford the military expenditures that made our basic geopolitical project possible. Are we getting into such economic trouble that we are losing our edge there? Here I have to say I am relatively optimistic. Debt is not necessarily a sign of weakness. Joe's Pizza Hut might owe five thousand dollars at the bank. Microsoft, at any given moment, might have a twenty-billion-dollar line of credit to the bankers. Who would you rather be, Bill Gates or Joe? The relationship between debt and strength is a fairly complex relationship. Look historically. In the nineteenth century, the United States was a debtor nation. And yes, there were times it caused problems. But during that same period when we were a debtor nation, with politicians and economists and experts wringing their hands over the disaster that would ensue, we steadily rose to become a world power. The same phenomenon occurred in South Korea during the last fifty years. South Korea became a tremendous debtor nation as it moved from a starvation-level economy to almost first-world levels of affluence. Debt is not so simple.

And there are a lot of reasons to believe that much of the debt that we have now is not the bad debt but the good debt—investors putting their money in America because we know what to do with money. Our corporations, our businesses know how to use money, to invest it. Now some people would say, "Look at our very high consumption rate and our very low savings rate. Disaster is at the door." I look at these national consumption statistics with great skepticism. For one thing, if you send your child to Harvard Medical School and pay forty thousand dollars a year tuition, national economic statistics will call that a consumption expenditure. They will look at you as if you'd just wasted forty thousand dollars on a bad weekend in Las Vegas. The same thing applies with health care. But a lot of our health care is about making people more productive longer. So the fact that heart attacks were killing off a lot of well-educated American males in their fifties thirty, forty years ago and aren't now—that's investment. When you get yourself treated or cured of a condition that formerly would have made you less capable of working, you are making an investment in human capital. And when you have a society which has a lot of investments in human capital, that society will be productive. It will be flexible. It will know how to use financial capital well. If you go back and look closely, education and health care are two of the elements in our consumption that are rising faster than GDP. I think we need to separate Harvard Medical School tuition from Las Vegas lost weekends. And then we can talk about where we stand and how we compare to other people. And the fact that much of American health care and education are in the private sector, while in other countries they're in state sectors, affects both the amount we spend, what we get for it, and how statistics are calculated.

Some of you are probably old enough, like me, to remember the eight years of Reagan's presidency, when the deficits—the hundred-billion-dollar trade and the hundred-billion-dollar budget deficit—were going to ruin the country. And you remember those awful nineties, when we paid for the binge of the Reagan years with the longest economic expansion in American history?

The other thing to remember about our deficit position in the world is our need for foreign investment. It is important that we stay a good place for other countries to invest. In comparing the dollar to the euro and the yen—the other alternative reserve currencies—one thing to remember, as they say on the plains of the Serengeti, is, you don't have to be faster than the lions. You just have to be faster than one other zebra. And if you look at the yen, it's a tremendous currency, but how much can you invest in Japan? The country remains committed to a zero interest rate policy. The stock market is around one-fourth of what it was sixteen years ago. The total number of males in Japan is shrinking year by year, and the national birth rate is declining as well. They can't absorb immigrants. You're not going to be able to put a lot of money into the yen long-term and receive significant return.

The same applies to Europe in regard to demographics and stagnation. While Slovakia is growing, Germany has been essentially stagnant for ten years. And they don't seem close to resolving this. You look at their pension liabilities. You look at their medical liabilities, and long term, they dwarf anything we've got, because we're still having children in this country. And we can absorb and assimilate immigrants.

If you think about it long term, the United States of America is going to be the only place in the world where investors can find a combination of first-world transparency, regulation, and stability. It won't be like lending money to Argentina, where every ten years they steal all the money anyone has invested and wait a couple of years until the investors come back. Yes, in the third world you get high returns, but you have high risks. And then in the first world you have low risk, but you'll get low return in Europe and Japan.

Does this mean that we should just carelessly print money and not worry about Medicare and Social Security? No, it doesn't. But it means if we arrive at good policies for sound economic growth, it's likely that things will work out for us.

I look at this whole pattern and believe the pillars of our national strategy are basically sound. It doesn't mean there aren't dangers. Homeland security, dirty bombs going off in New York—I can think of many more dangers. But it does mean that structurally this foreign policy that has been working for about three hundred years appears to be working reasonably well today—certainly as well as it's been working through much of history.

That doesn't mean that I don't worry though. What do I worry about? If we were a stable, stagnant society like ancient Egypt, Rome, or China—the empires that dominate their immediate space and then last for centuries—I'd say we have found the secret. But we're not that kind of society, and the system that we build isn't a stable system. This is the essence, in some respects, of our capitalistic system—free markets, invention, change and development. If we're doing our job, that's what we'll do as a country. We will generate new technologies. Others in this dynamic global world that we are building will also generate new technologies and find new ways of doing things. That creates social change. It creates technological change, and this has huge effects on foreign policy.

In order to build a nuclear weapon sixty years ago, it took a measurable fraction of the GDP of the United States of America, the richest country in the world. And it took a group of top-level scientists from all over the world. Today, with all due respect to the country of Pakistan, a country that is not at the forefront economically and socially, using a team of scientists many of whom could probably not get tenure at a good research institution, can not only put together nuclear weapons but do it in ways that escape international surveillance. This is the triumph of capitalism, rising productivity. It's because science and technology are moving forward that people, including bad people, can do things that they used not to be able to do. Our successes create problems for us.

On September 11, 2001, we saw one example of the worst thing that someone could do. In looking ahead one hundred years to September 11th, 2101, what will a nonstate actor be capable of then? A hundred years from now it is almost certain that kids working with their high school chemistry set will be able to accomplish biological feats that today Nobel Prize winners can't do with the entire resources of a national laboratory. Let's not even talk about what well-funded terrorist groups with years to operate can do. The world is going to be getting more dangerous and unstable to the degree that we're successful. And furthermore, as we are successful at creating a world that is open to market forces and open to new political ideas, social change will be accelerating as well. People will find their lives in upheaval with old certainties falling away. There will be social distress and a rising ability of distressed actors to cause problems. We will have our work cut out for us. There's no guaranteed success. There's no assurance of failure.

My guess is, we are going to continue with this strategy, as it is hard-wired into the way our country is and how we work as a people. And it has worked for us for a long time. We're not going to deny it. We're not going to change it lightly. But we will find that the unanticipated consequences of our successes are going to be the greatest sources of our difficulties.

## Walter Russell Mead Questions and Answers

Walter Russell Mead: Let's go to the Q&A. Sir.

**Q. Colonel Mead—**

A. Thank you, thank you.

**Q. It's commonly taught that there are four broad instruments of national power. And one that you don't hear an awful lot about is the informational element of national power. And at the start of this afternoon's talk, you talked about maybe the schizophrenic way that we accomplish some of our foreign policy goals. How might we better harness the informational element of power in pursuit of our goals?**

A. Well, I mean there are a lot of aspects to that. One of them is better intelligence to find out what everybody else is up to so we can act proactively more effectively. But I do think—I had some interesting conversations with some of the top people in the administration last summer about what, in their view, were the lessons learned from the last few years. You had to phrase that very delicately. You couldn't say to some of these folks, what mistakes did you make? You have to be very elaborate and say, well, you know, it's a long learning curve. No one has ever fought a war like this since September 11th. You must have learned something that now, if you'd known it then, blah, blah, blah, blah, blah. But what they said basically was, public communication and public diplomacy was an area where they really felt they had failed and needed to learn what to do. And I think we've seen, actually, in the second term, a very conscious and focused effort to deal with these problems. It has not succeeded yet. It's always such a mistake to shoot an Italian journalist, I find. And we don't have so many allies that we can go sort of tossing them overboard that quickly. But basically turning it from American imperialism and so on to spread of democracy is very important. We are clearly going to have to go back. Public diplomacy is so complicated, getting people to understand us and deal with us, because there's this basic inequality in international relations. We're stronger than other people. Other people care more what we think than we care what they think, as a general rule, most of the time. I remember the toughest question anybody has ever asked me was when I was in Bulgaria in, 1989, 1990. This kid asked a question at the end. He says, "Mr. Mead"—he didn't know about my being a colonel—"Mr. Mead," he says, "who is the American people's favorite Bulgarian politician?" I've never been so flummoxed by a question. But the point is, all over the world people have their favorite American politician, or perhaps currently their least favorite American politician. And they have their favorite American rock star and favorite American movie. We don't know very much about them, and we don't care. As a people, I mean—personally, I care about all of them a great deal. And we need to find ways—in the sense of maybe CNN or somebody else should be doing a news show where kind of American experts are responding to questions—some way of engaging us, getting our attention, making the relationship feel less unequal, I think is a part of this. But it's a very complex question. I can only give you a gesture in the direction of an answer. I'm sorry. Other questions? Yes?

**Q. Sir, more appropriate, Colonel. I'll keep that trend going. My question is: You have your five pillars. However, what about failed or failing states that**

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The above is an edited transcription of Mr. Mead's question-and-answer session.

**may not fit into being in—very succinctly, into one of those categories; for example, Afghanistan in the nineties, Somalia today, some others—the Horn of Africa, Central Asia—that are potentially going to be the sources of the global national or global terror, and how do we address that? How does that fit into your five pillars?**

A. All right, yes, this is a real problem. It's been a problem. The British had their own problems in Sudan. Anybody who has ever seen that movie [*Khartoum*, about] Gordon Pasha [General Charles George Gordon] would know. But it's going to be a bigger problem. And I actually wouldn't use some of those countries as much as I would use Nigeria. Here's a country that has something like 25 percent of all the people in sub-Saharan Africa. We may be getting up to 20 percent of our energy imports from Nigeria. It's divided almost equally into Christian and Muslim halves. They don't like each other very much. Complicated religious, tribal, and other reasons—fifty thousand people have been killed in the last five or six years in Christian-Muslim rioting and fighting in Nigeria. Virtually the entire government is corrupt from top to bottom—and clearly we are going to be drawn in there more and more because all of the social pathologies are all being, in a way, driven and empowered by this massive flow of oil money into a very corrupt system—sort of like Louisiana in the old days. And we all know what happened there. When I was in Louisiana, it was when Edwin Edwards, the governor that is now in jail, once said he could survive anything in Louisiana except being found in bed with a dead woman or a live boy. Otherwise he was okay. Since then I've noticed in Massachusetts you can get away with both. I'm sorry, I was making a point somewhere in that. So there is no easy solution to this, and we are going to have to develop new tools and new kinds of interventions to do it. And this is part of what I mean about our own success is going to empower our troubles, because if you think about Nigeria, fifty years ago no one really had to care about what was happening in Nigeria, because you would be fairly sure that the only thing they could do—they couldn't even get you with an e-mail fraud fifty years ago. But now you could well imagine a little chemical or biological weapons lab out there in the jungle, powered by a little generator, and so on, creating something that could screw up the whole world. So we are in a new era. And we are not going to just be able to just say, well, this is what Lord Nelson would have done, and that's the end of our foreign policy. Each generation is going to have to get better and figure out new ways to do it, and it's going to be a challenge, which is why you guys earn the big bucks I think that you do. And I'm sure you do, right? Sir?

**Q. In talking about soft power, your use of the term “sort of bubble wrapping ideology” seems to suggest that there's no real underlying sincerity about it. I mean, many historians will point to the missionary element in American policy, going back to the nineteenth century and Wilsonian idealism, and the fact that a genuine commitment to it made it a powerful element. I wonder whether or not I'm misinterpreting your view. Or is that your perspective?**

A. Well, I was speaking quickly and casually. You know, of course I'm sincere. Look, the thing is, when you think about American foreign policy as a whole—and remember that in my view it's made simultaneously by a lot of people with a lot of different motives. So you actually have some people, powerful people in Washington—like, for example, our president, who really does believe all the stuff, I think, about democracy. You know, they gave the list of movies that he'd seen in the last year, and one of a very short list was *Hotel Rwanda*. You know, so here's the president of the United States, in a very limited amount of free time, going to kind of mourn victims of genocide. It's real. And our commitment to democracy is real. We're quite sincere. But at the same time,



our oil companies are there. One of the great stories for me about American foreign policy or Americans abroad is on the docks of China in 1840. You had one group of people, organized by American missionaries, protesting the opium trade and trying to boycott the opium merchants. But then you had the opium merchants, who were also Americans, trading the opium. So what you'll see is, our impact on a society at any given moment—no matter what a particular president or whatever may intend—is always going to be a mixed picture. It's part of what's confusing about the whole thing, for others as well as for us. And for others it's very easy to say, well, you're hypocritical. We're more double-minded than hypocritical. But what I suggest to you is that neither the sincerity nor the cynicism will ever depart from the arena of American foreign policy. Yes.

**Q. Sir, the U.S. national security strategy or policy has been shaped especially after 9/11. Now we're seeing more preemptive measures and going after threats instead of waiting for them in this new world order of post-Cold War. You mentioned to keep an eye on Latin America. My first question: can we expect the U.S. to diminish or increase their efforts to fight against original threats like immigration and drug trafficking? Because it sometimes in Latin America looks like, the perception is, that the U.S. is more concerned overseas than in the region of North-Central-South America. My second question: the current U.S. administration's free trade of the Americas: is this a starting point for a more cohesive continent, more cohesive American continent, similar to the European Union? In your personal opinion, is this feasible? And more important, what can the U.S. do to accomplish this objective? Isn't a stronger Latin America better for the U.S. if these countries can deal with their problems successfully? And they won't have these problems with immigration or drugs. We have democracy in Latin America—not perfect, but we have it.**

**A.** Well I think one of the big disappointments I've had with the Bush administration was that I thought one of the most promising initiatives at the beginning of the administration, before September 11th, was actually sort of building a new historic relationship between Mexico and the United States. And I think President Fox and the kinds of reforms that he was associated with in Mexico created a tremendous historical opportunity. And I wish that the Bush administration, while still fighting the War on Terror and responding to September 11th, had found a way to keep that from almost falling off the table. But that's the past. It's happened. I think we have to now be looking to, how do we begin—how do we think through some of these issues? And I think immigration is an important—I would say that trying to make NAFTA, rather than the free trade area of the Americas, maybe throwing in CARICOM—the Caribbean region—into this; trying to promote some more integration there is a good thing. The president has taken some heat in the U.S. for being willing to have a guest worker program. But I'd like to see, actually, some more things. I'd like to see, for example, Americans who retire be allowed to use, be reimbursed for using, medical facilities in Mexico and Central America, as a way to promote more U.S. retirement abroad. Americans could live more cheaply and therefore live better abroad. It would create a lot of jobs, facilitate a lot of economic development there. You know, I'd like to see some things like that. And we maybe have time for one more question. Yes, sir?

**Q. You didn't mention the word "Russia" once. I wonder whether you would comment on that.**

**A.** All right, well—comment on Russia or comment on my not mentioning Russia earlier?

**Q. Comment on our relationship with Russia.**

- A. Well, I think, you know, it is interesting. A lot of Russians think that America is thinking night and day about how to weaken and counter Russia. The fact that I didn't mention it should suggest that actually we're not spending a lot of time plotting against Russia. If anything, from the American standpoint the danger that Russia is too weak and likely to implode is a more serious danger. But you know, Russian-American relations are a problem. In some ways Russia is like super-France; that is to say, a country whose ambitions—you know, it can't live up to its own ambitions. It sees the U.S., rightly or wrongly, as having blocked it. And it's deeply bitter about it. And it's very hard for us to deal with that. And it's bitter, suspicious, given to paranoid thinking, in the best of times anyway. But on the other hand, for Russia, the fact is it has two tremendous geopolitical weaknesses—which is to say, on the south there's the fear to be nibbled at by radical Islam and sort of fall apart, and then in the Far East there's China. There's really only one country in the world that can help Russia in a serious way with both these problems. That's the United States. So it's a relationship. There's a lot about them we don't like. There's a lot about us they don't like. And yet this sort of iron logic of our national interests forces us both to limit the kinds of disagreements that we have. So if I didn't mention Russia, it's really, in a sense, because it looks to me like it's one of the more fixed stars, in the sense right now that we and they are both trapped into a fairly narrow range of possible alternative attitudes to each other. It's something there—it is, I think. And I hope things go better for them. I really do. It's in the American national interest for there to be a strong Russia. A strong and prosperous Russia is very much in the American national interest; and as I understand it, a lot of our criticism of Putin is not based on we're afraid that his strong authoritarian leadership is going to make a great Russia as much as we are afraid that this kind of dictatorship will choke the possibility of a Russian national revival. Well, it looks to me like we've about run out of time. Thank you for your attention and your patience.



## Panel II

# Global War on Terrorism, Homeland Security, Defense, and Intelligence



*Panel II moderator Thomas Nichols (far right) leads Carnes Lord, David H. McIntyre, and James Jay Carafano in a discussion of the global war on terrorism, homeland security, defense, and intelligence.*

*Moderator:*

**Dr. Thomas Nichols**

Chairman, Strategy and Policy Department, Naval War College

**Dr. James Jay Carafano**

Senior Research Fellow, Defense and Homeland Security  
Davis Institute, The Heritage Foundation

**Dr. David H. McIntyre**

Director of the Integrative Center for Homeland Security  
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**Dr. Carnes Lord**

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# Homeland Security To-Do List

**Dr. James Jay Carafano**  
**Senior Research Fellow**  
**Defense and Homeland Security**  
**Davis Institute, The Heritage Foundation**

*The following is an edited written statement summarized by  
Dr. Carafano in his opening remarks.*

Now isn't the time for complacency—while much has been done to protect the United States from the threat of transnational terrorism, much remains to be accomplished. A review of how the federal government has responded to the challenges of homeland security since the terrorist attacks of September 11, 2001, suggests that additional organizational reforms are needed to improve legislative oversight, the operations of the Department of Homeland Security, and cooperation among federal agencies. At least five key reforms should be on the table, though the prospects for implementing them in the near term appear unlikely without greater support from the president and congressional leaders.

## Lessons from the Cold War

The global war against terrorism will likely be a long war. The onset of another long war, the Cold War, offers valuable lessons for thinking about the difficulties of organizing for a protracted conflict.

First, it takes time. History argues for patience. The National Security Act of 1947 created America's premier Cold War weapons, what eventually became the Defense Department and the CIA. But it still took about a decade to figure out how best to fight the Russian bear and develop instruments like NATO, nuclear deterrence, and international military assistance.

Second, now is the time to get it right. If there is one constant in Washington, it is how government works. Once our government is set on a course, change is very difficult—usually impossible. Momentum is Washington's greatest industry. Thus, bad habits get carried into the future as determinedly as successful policies and programs. In the debates over the 1947 act and again as president, Eisenhower lobbied for more integration of the services. He lost. It was not until the passage of the Goldwater-Nichols Act in 1986 that Congress addressed its failures of 1947. Fix it at the beginning or live with the mistakes for a long time.

What needs to be done next?

## Reform #1: Improve Congressional Oversight

Among the organizational reforms yet to be adequately addressed for fighting the global war on terrorism is appropriate congressional oversight of the Department of Homeland Security (DHS). Established by the Homeland Security Act of 2002, the department is charged with leading the nation in preventing, responding to, and recovering from terrorist attacks, but oversight of the department remains fragmented.

Congress's inability to address its homeland security responsibilities was conspicuously noted in the 9/11 Commission's final report. Among the commission's priorities for enhancing the nation's capacity to protect itself against terrorist threats was a pointed recommendation that both the House and Senate must establish single committees with complete oversight responsibility

over all matters pertaining to DHS. Both chambers responded by creating permanent homeland security committees. These committees, however, do not have jurisdiction over all the homeland security activities of the department.

## **Reform #2: Reorganize the Department of Homeland Security**

The purpose of creating the DHS was to integrate critical homeland security missions in a single department to ensure unity of purpose, coordinated action, and effective integration of key border, transportation, and emergency response operations. The first years of the department's operations have revealed both its strengths and flaws in accomplishing these tasks. The weaknesses are significant.

The current organization of DHS must be reformed because it hampers the secretary of Homeland Security's ability to lead our nation's homeland security efforts. The organization is weighed down with bureaucratic layers, is rife with turf warfare, and lacks a structure for strategic thinking and policymaking.

Any overhaul of the department should include:

- Strengthening the secretary of Homeland Security's policymaking function by creating an Undersecretary for Policy.
- Empowering the secretary by establishing a flatter organizational structure through (1) consolidating and strengthening agencies with overlapping missions; (2) eliminating middle-management (directorate) layers over border and transportation security, preparedness and response, and information analysis and infrastructure protection; and (3) having the agencies report directly to the secretary via the deputy secretary of Homeland Security.
- Merging Customs and Border Protection and Immigration and Customs Enforcement.
- Consolidating preparedness and protection activities in a single undersecretary.

## **Reform #3: Strengthen the Homeland Security Council**

The Homeland Security Council (HSC) was established by presidential directive after the September 11 attacks and later codified in the Homeland Security Act of 2002. The 9/11 Commission called for folding the HSC into the National Security Council (NSC).

While eventually it would make sense to address the coordination of security issues in a holistic manner, eliminating what are often artificial distinctions between domestic and overseas security challenges, such an initiative is probably premature.

At present the president should focus on strengthening the HSC staff and promoting effective cooperation with the NSC. The ongoing joint HSC/NSC effort to draft a presidential directive on maritime security and develop a national maritime security strategy should serve as a model for other joint efforts. In the long term, perhaps in a few years when homeland security programs and policies are more fully developed, this issue should be revisited.

## **Reform #4: Improve Intelligence and Information Sharing**

Improving the national capacity to share information and intelligence regarding terrorism has been one of the highest post-9/11 priorities. Since its creation, however, the role of DHS and IAIP (Information Analysis and Infrastructure Protection) in intelligence sharing has been significantly marginalized.

The current arrangement leaves no one person or agency in charge of all these related activities, and it makes DHS little more than an end user, competing with other agencies for intelligence support. DHS currently lacks the experience, personnel, and facilities to act as a true domestic intelligence integrator. Without the responsibility, organization, and resources to perform this mission, the DHS is unlikely ever to be able to fulfill its congressional mandate.

Rather than marginalizing the DHS intelligence role, it should be strengthened, including putting the department in charge of the Terrorist Screening Center (TSC), which is responsible for consolidating terrorist watch lists. In addition, other intelligence integration centers within DHS, such as the Customs and Border Control's National Targeting Center (NTC), which identifies high-risk international cargo for inspection, and the Immigration and Customs' Law Enforcement Support Center (LESC), should be integrated into one entity. Together, these organizations should form the nucleus of an effective information-sharing center under DHS leadership.

## **Reform #5: Enhance Interagency Operations**

Clearly the area of interagency cooperation that needs most attention is between the Homeland Security and Defense departments. Frankly, the relationship between these departments is very immature. The Defense Department's (DoD) effort to create a doctrinal distinction between "homeland defense" and "homeland security" has served more to create gaps between the two organizations and allowed DoD to narrowly define its role in homeland security.

There are three areas where DoD and DHS should cooperate much more closely.

First, DoD and DHS should work much more closely on developing future capabilities for maritime security, particularly in enhancing maritime domain awareness (MDA) and preparing to confront a range of unconventional threats, from small boat attacks to cruise missiles.

The second area where DoD needs to play a larger role is developing the capacity to respond to catastrophic threats, providing forces that are properly organized, trained, and equipped to respond to the worst kinds of terrorist attacks. In this area only scant progress has been made. DoD's U.S. Northern Command (NORTHCOM) has begun to examine scenarios that might define future force requirements for these missions. In addition, the National Guard is undergoing restructuring efforts that will produce some forces that will have a greater utility for homeland security. None of these initiatives, however, appear adequate to address the challenge of catastrophic terrorism.

The third area where more cooperation is called for is the development and acquisition of future technologies that are mutually critical to defense and homeland security. Research suggests there are significant opportunities for collaboration. On the other hand, few initiatives appear under way. Much current cooperation is through the Technical Support Working Group, but these efforts focus on commercial off-the-shelf technologies, not long-term research and development.





# Strategy and Threat: The Problem of Language

**Dr. David H. McIntyre,  
Director, Integrative Center for Homeland Security  
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*The following is an edited written statement summarized by  
Dr. McIntyre in his opening remarks.*

One of the reasons that we find it so difficult to articulate an American strategy for counterterrorism, and for national and international activities as a whole, is that many of our key terms are used and abused in multiple ways. Clear thinking requires clear and careful language.

For the purposes of this conference, perhaps no word is more important than “strategy.” Even understanding that words can have multiple definitions—and setting aside the misuse of the term by nonprofessionals when they really mean “tactics,” or “operations”—we still encounter too much confusion from the multiple uses of the term by experienced scholars, strategists, and national leaders. What we need for clear thinking is more discipline in our selection of terms.

One way to promote precision in our terminology is to examine a well accepted case where the meaning of “strategy” is clear. The “Containment Strategy,” set as national policy by NSC-68 in 1950, provides such a case.

As a national strategy, “Containment” was, first and foremost, a *concept of cause and effect*. Given that the Communist system focused primarily on redistribution and did not create as efficiently as the West, the strategic concept employed was to cut off Communist nations from gaining new resources by expansion, leaving them to waste away. Here then is the great illustrative example of a national strategy in a nutshell: “*If the Communists could be denied new resources, then they would collapse from their own internal inefficiencies and contradictions.*” If-Then. Cause and Effect.

This strategic concept was implemented primarily by encircling the Communist bloc with allies and forward deployed military forces, resourcing those forces as required, and mobilizing the will of the American people to provide the necessary support. This required a constant *balancing of means and ends* at the national level for as long as the strategy was in effect. For example, planners and legislators every year balanced domestic priorities against international priorities, education monies against defense expenditures, carriers against tank divisions, state department initiatives against military modernization. With the fundamental strategic concept set, this balancing became the primary strategic endeavor for two generations, and many have come to think of balancing ends and means as the primary aspect of making strategy—some even equate balancing with the definition of strategy itself.

But this idea was proven false at the end of the Cold War, when strategists found balancing ends and means all but impossible in the absence of a strategic construct of cause and effect. A number of farsighted strategists have attempted to fill the void by posing a debate over “grand strategies.” These they generally identify as: Neo-Isolationism, Selective Intervention, Engagement, Primacy, and Empire. These approaches are quite useful as descriptive Strategic Visions—end states—but they do not really explain how the visions are to be achieved. To be

useful in a prescriptive sense—as *strategies*—intellectual constructs have to explain what is to be done and why—cause and effect—just as Containment did in 1950.

Absent a strategic concept as compelling as Containment, many in DoD focused for the past decade on the internal balancing of means, even in the absence of agreed upon ends. This creation of capabilities without a clear concept of how they would produce a strategic outcome was called the Revolution in Military Affairs (RMA) until the late 1990s, and Transformation since then. It is today the focus of DoD’s most intense activity. Its outcome will determine the military capabilities available to the nation, and the ability of the United States to accomplish certain strategies in the future. It is an important activity. But Transformation is not a strategy, nor is the establishment of “full spectrum dominance,” which it is supposed to produce. Its result is a *status*, not a *strategy*.

The administration has actually offered a comprehensive strategic concept in its *National Strategy for Combating Terrorism* (February 2003):

- *If* we defeat the terrorists and their organizations,
- Deny them sponsorship, support, and sanctuary,
- Diminish the underlying conditions that terrorists seek to exploit, and
- Defend U.S. citizens and their interests at home and abroad
- *Then* the numbers of terrorists and the dangers they pose will be reduced.

But this strategic concept of cause and effect has not been accompanied by a sustained effort to balance means and ends by prioritizing resources. And it is difficult to identify in the DoD Transformation process any direct reflection of means specifically developed and matched to achieve these ends. The *Strategy* has produced actions and results—but none of the resource balancing required to support the concept of cause and effect over the long term.

What we are still missing is an integrated program that connects national strategic vision to strategic concept, to strategic allocation of resources, to strategic development of means required, to strategic balancing of those means against the ends desired. We are talking about strategy piecemeal, because we have not demanded discipline and precision in the terms we use.

Strategic leaders and educators would do well to use these different terms with care. What we really need is a focused dialogue among strategists to help us clarify and standardize these terms as we craft a strategy for the future. Perhaps this conference will help advance such a dialogue.

A second example of the import of clear speaking to clear strategic thinking is the use of the word “threat.”

Testimony before Congress on February 16 of this year provided a unique overview of the threats facing the United States for the foreseeable future, and the National and Homeland Security Strategies now envisioned as a response.<sup>1</sup> Tasked to provide a description of the spectrum of threats to the United States and its interests, and to assess the probability, immediacy,

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1. On February 16, 2005, the following officials testified before the Senate Select Committee on Intelligence concerning Security Threats to the United States: Admiral James Loy, Acting Secretary of Homeland Security; Mr. Peter Goss, Director of Central Intelligence; Mr. Robert Mueller, Director Federal Bureau of Investigation; Thomas Fingar, Assistant Secretary of State for Intelligence and Research; Vice Admiral Lowell Jacoby, Director, Defense Intelligence Agency. Additionally, on the same date, Mr. Donald Rumsfeld, Secretary of Defense, testified on the current and future state of U.S. armed forces before the House Armed Services Committee.

and severity of the resulting dangers, the senior leaders of the U.S. intelligence community expressed a striking vision. Their statements generally agreed on the following points:

- Both the greatest dangers and the most likely threats to the United States, its citizens at home and abroad, and its vital interests, along with those of its allies—both today and in the future—come from nonstate terrorist actors, rather than from hostile states.
- The chief among such actors is al-Qa'ida.
- Al-Qa'ida may be morphing from a somewhat centrally directed organization to a decentralized model, centrally inspired by bin Laden and others but depending more upon local initiative than in the past.
- The potential unity and cooperation between bin Laden's organization and Al Zargawi's would be especially dangerous, as would the involvement of Hezbollah and other known terrorist groups.
- Whatever their origin and motivation (and opinion may differ a bit here), these hostile actors are most likely to attack the United States with advanced conventional weapons—extremely powerful and sophisticated car and truck bombs, and explosives used to inflict a maximum number of highly visible casualties.
- Even with the best intelligence, preventing all such attacks will be extremely difficult.
- Protecting *all* citizens and critical infrastructure in a nation “awash” with such targets is impossible.
- Attacks using Chemical, Biological, Radiological or Nuclear weapons are less likely, only because the weapons are harder to acquire. But al-Qa'ida and other terrorist organizations are actively seeking such weapons.
- And if they acquire them, they will use them.

The good news, as Thomas Fingar at the Department of State points out, is that the United States is virtually free of state opponents, because no one is willing to challenge the acknowledged supremacy of American force of arms. The bad news, Peter Goss of the CIA and all the other leaders point out, is that terrorist attacks with enhanced conventional techniques are likely, and the use of weapons of mass destruction against Americans on American soil may well be “inevitable.”

The upshot of these separate statements is a remarkably coherent vision of the threat—and a curious gap concerning the U.S. response. Both the Secretary of Defense and the Acting Secretary of Homeland Security describe the extensive organizational and procurement actions reshaping their departments. But neither describes anything like the massive preparation required if the nation is to rapidly respond to and recover from the threat the intelligence experts uniformly fear the most—a terrorist attack using WMD.

I suggest that this lack of clear action on what the intelligence community considers its greatest concern, can, like the lack of clarity in strategy formulation, be traced to a certain ambivalence in our use of language.

No one in World War II would have described Japan or Germany as cold, distant, and disembodied “threats.” We understood that they were “enemies”—active, deadly, creative, resourceful, and seeking the destruction of our nation and our people. Our national response was not bureaucratic or organizational, but passionate and engaged, seeking immediate solutions and willing to make sacrifices to achieve them.

Preparations to respond to and recover from an attack on the scale envisioned by our senior intelligence personnel will require a similar engagement by the American public. We will not generate the required sacrifice by the public or action by the bureaucracy if we insist in describing our challenge as a “threat”—to be prioritized with other government “threats” like unemployment, an aging population, and annual forest fires.

Our strategic confusion and operational lethargy in preparing for the “worst case” that the leaders of our national intelligence community most fear is explained by our imprecise use of language. Our security challenge is a thinking enemy, learning and adapting as he seeks to strike a series of horrific blows against civilian targets. Nothing short of precise and direct language will convey that reality—or energize the required response.

# Soft Power and the Terror War

**Dr. Carnes Lord**

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*The following is an edited written statement summarized by  
Dr. Lord in his opening remarks.*

Is there one instrument of American statecraft that, more than any other, holds the key to victory in the global war on terror? And if so, is this fact sufficiently recognized in Washington, and is this instrument adequately funded and organized and effectively wielded by our national leadership? The answers to these questions are yes and no. The instrument, of course, is public diplomacy.

It is not difficult to see that the global war on terror cannot be won by military force, and there are reasons for thinking that the use of force may even prove counterproductive under some circumstances by increasing the flow of new recruits to the terrorist cause. The other traditional instrument of American hard power, money, certainly has its uses, but no one yet has stepped forward to claim the rewards we have placed on the heads of bin Laden and Zarqawi. Terrorism can be stopped in the long run only by changing the minds of potential recruits as well as those who support or tolerate terrorist activity, and by enlisting allies who will act to root terrorism out of their own societies in ways and with methods not open to us. And changing minds is what public diplomacy is all about.

Not long ago, Harvard professor Joseph Nye coined the useful term “soft power” to describe a dimension of national power and influence that is too often neglected. American soft power extends well beyond the actions of the United States government. Probably its most important component is the idea of America itself, land of liberty and constitutional democracy. The events of the last several months in the Middle East are stunning testimony to the power of the idea of democracy to transform political realities. This has been an enormously hopeful development for the region and for the prospects of eventual victory in the terror war globally. Of course, our government has taken steps to promote the idea of democracy, notably in the president’s remarkable inaugural address, but the dynamic at work here is a much larger one. The key question is how we as a government can best take advantage of this new set of circumstances. This requires a fresh look at how the U.S. government communicates with audiences abroad, which is to say, American public diplomacy.

So much for the good news. The bad news is that American public diplomacy is broken. There is remarkable unanimity on this point in the national security community today—on right and left, among realists and neoconservatives, in the cottage industry of official and semiofficial reports on this subject of recent years, and now on the part of our new secretary of state. In her Senate confirmation hearing, Condoleezza Rice said that public diplomacy would be a “top priority” in the second Bush administration. The president himself echoed this thought in a later press conference. Recent efforts by the president and Secretary Rice to burnish the American image in Europe seem to reflect this new shift. Unfortunately, such efforts can take us only so far in the absence of real organizational capability to conduct sustained public diplomacy programs and campaigns, which, sadly, is our current situation.

In the aftermath of September 11, our elected leadership summoned the political will to make the most far-reaching changes in the national security bureaucracy in more than half a century by creating the Department of Homeland Security. At present, a similar national commitment

to institutional change seems to have emerged in the area of intelligence. No such commitment exists in the public diplomacy area. There are several reasons for this. Not only is there no real consensus among practitioners or critics of American public diplomacy about what needs to be done to fix it, but the pathologies at work here are themselves not well understood.

What accounts for the present condition of American public diplomacy? It is easy enough to blame the end of the Cold War, and the widespread sense it brought that the tides of history were flowing in our direction and that the United States needed to do little to explain itself in a world in which liberalism and democracy were suddenly the norm. During the 1990s, U.S. international broadcasting was scaled back significantly, and the flagship public diplomacy agency, the United States Information Agency (USIA), was in effect dismantled in a merger with the State Department. In 1960, there were probably three times as many government personnel working in public diplomacy as there are today.

In fact, however, the problems facing public diplomacy today have much deeper roots. Even during the Cold War, public diplomacy never fully lived up to the initial expectations held out for it by many, and it remained for the most part at the margins of American grand strategy. The problems limiting the effectiveness of public diplomacy then and now may be grouped under three general headings: the definition and scope of the subject; the difficulty of organizing the national security bureaucracy to carry it out effectively; and what might be called its cultural toxicity.

Public diplomacy is unique as an instrument of American statecraft. At any rate since the demise of USIA, it alone among the elements of our national security policy lacks a core institutional base, an established infrastructure of education and training, a stable cadre of personnel, an operational doctrine, or roles and missions that are understood and accepted by national security or political elites or, for that matter, the general public. Further, public diplomacy operates in a uniquely challenging domestic environment, one centrally shaped by the fundamental hostility of the commercial media and much of the general culture to any government involvement in the management of information. This environment is reflected in the perennial micromanagement of public diplomacy programs by the Congress, as well as in the bureaucratic culture of our public diplomacy organizations, heavily populated as they are by journalists or those sympathetic to their allergy to government management of information. Not coincidentally, it lacks high-level political support and tends to be chronically underfunded. (Today, the United States spends a little over a billion dollars on public diplomacy—about the same as Britain and France each do; many observers think this could easily be tripled.)

The problems begin with defining the meaning and scope of public diplomacy. What may seem a merely semantic issue has for long been a fateful source of controversy and confusion in this euphemism-prone field. The key issue today is the relationship between public diplomacy and the traditional public affairs function, increasingly blurred and politically contentious in the contemporary global information environment. There is also an important question concerning how the Defense Department plays in this arena and, in particular, what the relationship is or ought to be between public diplomacy and military psychological operations. A good case can be made for a serious rethinking of the Pentagon's role here in the larger context of national-level public diplomacy in support of the terror war.

As far as organization is concerned, the case for fundamental reform seems strong. Giving to the State Department primary responsibility for public diplomacy may have been an experiment worth trying, but it is one that has plainly failed. The central problem here is one that public diplomacy shares with intelligence. Both are policy support rather than policy functions, and hence cannot be fully independent of the policy agencies they serve; at the same time, they require a specialized expertise that is not well understood or valued by these agencies and can only be nurtured in a separate bureaucratic environment. Hence the compelling logic of reconstituting USIA or its equivalent. At the same time, contrary to what many seem to assume, this



should not be seen as an either-or proposition: the State Department should continue to play a key role, and, indeed, in some ways a stronger one than it does at present.

Many of the critics of American public diplomacy see as the critical organizational fix the creation of a “czar” in the White House to energize and coordinate public diplomacy activities across the executive branch. The track record of White House czars is hardly a brilliant one; beyond that, however, public diplomacy is uniquely difficult to manage in a centralized and top-down fashion. What is really needed, it can be argued, is a revitalization of the public diplomacy function throughout the key agencies and its closer integration with policy at all levels. Still, the White House will have a key part in overseeing this revitalization effort. It could also play a valuable role by creating a new organizational structure for “soft power” more generally, one that would align public diplomacy more closely than in the past with entities such as the Agency for International Development and functions such as the promotion of democracy and human rights, humanitarian affairs, and education assistance.

Important as they are, these sorts of organizational fixes by themselves will not solve the larger problem. The larger problem is our continuing cultural allergy as Americans to government involvement in the information business. Perhaps nothing can be done about this at the end of the day. But perhaps the time is ripe to open up a national debate on this issue, of the kind we have recently seen in the intelligence area, and move beyond the simplistic slogans that tend to dominate our current thinking on this important subject. Short of that, we will continue on a course which, just conceivably, could snatch defeat in the terror war from the jaws of victory.



## Panel II Questions and Answers

Moderator [Dr. Nichols]: One of the things I was curious about when you talk about how much we spend on public diplomacy: I wonder how much of that really includes the concept of Hollywood itself. We have a kind of big engine of public diplomacy for good or for ill. And the reason I thought of this: Recently, I found out that there's a kind of cult in Iran around *Baywatch*. And it just struck me . . . the totalitarian reign of the Ayatollahs falls because of Yasmine Bleeth. . . . Public diplomacy raises an interesting question—broaden it, especially the engine of entertainment we have.

Why don't we take two or three questions at a time from all of you and then let the panel work through them. I think that way we can interact with more of you than if we go back and forth around the room.

With that, let me open it up to questions. Yes, sir?

**Q. Carnes Lord, I would like to carry on a little further. I think you've really touched the nub of it. I personally have visited some schools in the Middle East other than the ones run by the government, and I've seen some horrible things and so forth, and I believe that education and what forms this country seems to really thrive on education as this school is a great representative of that thought. What programs could we have to go into countries that would have us come in? I realize it is somewhat of a problem to educate the people on reading, writing, arithmetic, and not religious fanaticism.**

Moderator: Thank you; other questions?

**Q. You mentioned that it's going to be a long war on terrorism. And you used the Cold War as a basis for that theory. I think everything, technology and everything in our society is moving faster, so I'd like you to address how you do the Cold War faster.**

Moderator: Okay, we'll start with those two. We have two questions. One is about programs for education abroad that could perhaps snuff out some of these more radical educational establishments. Cary, you want to start with that one?

**A.** [Dr. Lord] Yes, well, I totally agree. I think educational assistance is one of the areas with the biggest payoff and one that we haven't really tried to do in a very systematic way in the past—I mean partly because it actually falls between bureaucratic stools. This is one area, in fact, where the USAID has done a lot, kind of rather unpublicized, recently but over many years, particularly in the Middle East. DoD—in fact you may recall the ill-starred Office of Strategic Influence that was set up in 2002 and within DoD. One of the components of that, in fact, was technical assistance to the madrassas in Pakistan, largely to try to introduce training and computers and to try to kind of bring these schools a little bit into the modern world and, as you say, move them away from purely religious education. And I think there's a lot of readiness out there in these Middle Eastern countries to go that route. But there's a lot we can do—but it's obviously a delicate issue, you know, telling other countries what they should have in their school curricula. But I think there are ways we can work through third parties and through private organizations, universities and so forth, you know, to pursue that.

A. [Dr. Carafano] Yes, I'd actually like to tie both questions together, the long-war question and the public diplomacy issue. I think that's part of the silliness that we need to get over. The notion that this is anything but a long war and somehow it should be over by the 6:00 news is absolutely silly. That's what we really need to disabuse people of, and a lot of our initial effort really was done with this kind of silliness in mind. You know, a perfect example: they threw billions of dollars at state and local governments, money which is very, very transitory in its effectiveness. You buy a guy a mask, and a mask is there for a couple of years, and then it's gone. But it took five years to plan the 9/11 attacks. It took three years to plan the Madrid bombings. The next great terrorist attack in this country may come five years from now, six years from now, seven years from now. So the fact that I helped pay some patrolman's overtime for the next six months, or I bought him a widget that lasts for two years, is interesting but irrelevant. It's not really sustainable security. So it's sustainable security that's really important, so those are exactly the kinds of—the notion that we can solve this thing very quickly is exactly the kind of thing we need to put out of our heads. I think this perfectly goes over to the public policy issue, because if you can win the war in twenty minutes, why do you have to waste time doing public diplomacy—and the answer is, you don't. But you have to do public diplomacy because you can't win the war in thirty minutes. And you know, I'm like Cary, I'm not so sure what all the right answers are. But I know what needs to be done. I mean, we actually had four parts in our *Winning the Long War* book. One looks at security. One looks at the economic—many issues that we talked about this morning. How do you keep sustained economic growth? The other looks at the civil liberties and diplomacy, but we also had a chapter on the ideological struggle. And we say you really have to do four things. First you have to understand the enemy and the target audience, because you can't do public diplomacy unless you understand those two things. The second is, you have to delegitimize the enemy. You have to convince the target audience that killing people is not the best way to get their political agenda done. The third thing you have to do is, you have to give them an alternative. You have to provide somebody an option for solving their problem in a way other than being a terrorist. And the fourth thing you have to do is, you have to demonstrate a will to prevail. You have to convince both the target and the enemy that you're not quitting, no matter how long this takes. And so you really need to pull all four of those things together. Now the problem I'm really struggling with, with some of the things that they talked about—let's recreate USIA, and some of these other things in terms of a good long-war strategy—is, the world is changed. I mean the global information environment today is very, very different. It's very diverse. There's lots of ways for people to get information. The ability of governments to dominate that is simply disappearing. And the problem is, the people—the best people to make the case to do those four things—is not the U.S. government. The U.S. government is not going to be perceived as a legitimate voice in the ideological debate over whether Islamic terrorism is a good idea or not. And so somehow you have to mobilize the natural constituents in that part of the world that need to make this argument, and that's women, the business community, secular leaders, and religious moderates. They're the ones that have to go out there and make the case. The question is, how do you really mobilize that? I don't think creating a federal agency is going to do that. I think you can do an awful lot with outsourcing, you know, giving people—organizing people and giving them information and resources to do that. But none of that is going to get done in fifteen minutes.

Moderator: Do you have anything to add?

A. [Dr. McIntyre] I'm concerned that the core of this, again, is the question of understanding or misunderstanding the enemy. I agree with pursuing public diplomacy. It's just I think we have to do it a different way. And the core of the Cold War—the truth is that

the Marxists and the West in some respects had a commonality of vision. We both were talking about what's best for people. The argument was what economic system and, by extension, what political system, and by extension from that, what moral system best serves that purpose. And eventually what we did was demonstrate that the system in the West best served that purpose by cutting them off and allowing the economic stresses internally to collapse. That's not the argument we're in with these other guys. We aren't in a question about what best serves humans here on Earth. They have an entirely different question: In what way can man best serve God here on Earth? And so the louder and harder and better we put our position forward, the more we prove bin Laden's case that this is a war on his ideas, that we are moving aggressively to purge his philosophy from the Earth—read what he says. I just can't say that enough. It's online. Go read it. Nobody looks at it. He's right. What he is saying about us is right. We seek to change the fundamentals of his way of life, of his belief. We want to give rights to women. Well, we're not going to do that by getting him to understand better what we mean by rights to women. So the fact is, there's a hard nut core here that we're simply going to have to kill, and then a large number of other people that we can convince because that hard nut didn't work—that's, to my mind, the core of how we're going to have to fight this over a longer period of time. As Jay says, demonstrate that their approach doesn't work. And then you'll be able to open the door a little wider. Finally, the question of moderates—why aren't there more moderates? Why don't the moderates speak up? Because as long as the radicals seem to be winning, you'd be an idiot to speak up as a moderate. We've got to give them enough cover to demonstrate some sort of victory against the radicals, and at that point you can expect to see moderate voices kick in.

Moderator: I want to pursue this issue, for a second, of ideology because I think this is—I think all three of you have touched on something really important, which is, this is not just a war with an enemy. But it's with an enemy who has a very specific—and this is where I think the Cold War analogy does hold and why it will be a long war—you have an enemy who has a very specific ideology. The thing that always drives me crazy—maybe you guys want to comment on this—the thing that always drives me crazy is, why do they hate us? What did we do? And the one place that—Dave, I guess I take issue with you for a moment and say it's not so much that we're an aggressive force eradicating bin Laden's way of life as everything we are is offensive to bin Laden. The fact that we exist in the form that we do, the fact that women walk around without wearing a burka and that we're not stoning homosexuals in the public square and that our television movies are permissible: It's fundamentally—in fact, I think it was Zarqawi who, just before the Iraq elections, said democracy is a form of heresy in and of itself. And I guess at that point I find myself agreeing with you that there's just a tough nut there that you have to get rid of, but our fundamental philosophy is, we would leave you alone if you leave us alone. But the Communists and these guys don't seem to have that live and let live—

A. [Dr. McIntyre] But we're not leaving them alone. We're not leaving them alone from their perspective, and your point about *Baywatch* and Iran is exactly to the point. If we had a large number of American young people who were suddenly taken with the ideology of Islam, we would be alarmed. And if we matched—if our politics and our religion were the same, we'd really be alarmed. And that's where he is. You know, he isn't a wild-eyed madman. Read the books by—was it Scheuer—Mr. Anonymous?

Moderator: Scheuer, yes.

A. [Dr. McIntyre] And he lays out the things that bin Laden has asked for. And there's simply things that we can't give him. Get out of the Holy Land. Abandon Israel—

Moderator: Everyone in America convert to Islam.

- A. [Dr. McIntyre] And what he says is—even a little more sophisticated than that—what he says is, look, you guys are supporting corrupt regimes worldwide; quit supporting those corrupt regimes. Let them fall. Remember that Saudi Arabia was singled out by the State Department last year for being virtually the least tolerant of religious intolerant nations in the world. And they're being attacked by al-Qa'ida for being too liberal. You've got to get your mind around that fact to understand what we're up against.

Moderator: Go ahead.

- A. [Dr. Lord] I may have a slightly divergent view. I mean, I think the analogy with the Cold War is vital to pose. One obvious difference is, just why was the Cold War cold? It was because there were reasons we didn't want to come to blows with the Soviet Union in a hot war. And the whole idea of containment, of course, was to use particularly our ideological appeal and our public diplomacy programs to rot the enemy from within, and the strategy worked brilliantly, but it took, you know, forty years. I'm not sure it's quite the same with the War on Terror I mean partly because it's a hot war, too. And we're chipping away at them on many different fronts at the same time—you know, drying up their finances, killing them, and also bombarding them with public diplomacy. What that suggests is, maybe this won't be such a long war. I think another point worth keeping in mind before we assume that somehow bin Laden and company are ten feet tall—I don't think they are ten feet tall. If you read some of the books, particularly by a couple of French students of the radical Islam, who've written rather convincing accounts—it's a book called *The Failure of Political Islam*, which goes back to the Algerian crisis ten years ago, or whenever it was where the National Salvation Front there in Algeria—the Islamists made a try for political power, and they were massacred in a kind of a bloody civil war. But beyond that there's been a kind of reaction in the Arab world, the Islamic world, wherever radical Islam has seemed to approach political power, that, well, maybe we really don't want these guys running our country. So what is the appeal exactly now of bin Ladenism, and what's the relation between that and the intrinsic appeal and just the current wave of anti-Americanism in the region because of Iraq? I mean, those are tough questions. But I think one could make the argument, for example, that every poll shows that Americans are more unpopular now than ever; in all of these countries, 1% or 2% opinion polls will say they like America. But this may be a transient phenomenon. Go back to Vietnam days. We took a bath in public opinion in Europe and elsewhere for Vietnam, and we rebounded once we got out of Vietnam. So again, just kind of a contrarian's view that perhaps this thing could be over more tidily and quicker than a lot of us now think.

Moderator: Jim?

- A. [Dr. Carafano] Yes, I just agree with Cary. I just want to make a slightly different point, which is, really there's two ideological wars or information campaigns going on here. And I agree with them about the nature of—Gilles Kepel's *Jihad*, the book you are talking about, which is actually a fabulous book, basically said, Look, political Islam failed. And actually in part you can explain the rise of bin Laden because the political agenda simply failed. They couldn't get a hold anywhere, and so they became terrorists. But having said that, you don't need many people to be a successful terrorist. And so you've got to go out and break the linkage between the terrorist and his target from the people that he is seeking to recruit and fund-raise from if you ever want to get that manageable down. But it is a good reminder that these guys are not ten feet tall. This is a very, very defeatable enemy. As a matter of fact, George Kennan's "Long Telegram" is infinitely worth rereading, not for the stuff on containment, which I really think is all overblown. Containment is not the beginning or the end, and I don't actually think we ever practiced the strategy of containment during the Cold War. But the most important



part of Kennan's letter is the last three hundred and fifty words, and I'm misquoting him, but what he says is, he does this whole analysis. He says, at the end of the day, you know what? He said, we're going to win this war. We're stronger than these guys. We're smarter than these guys. We're better than these guys. We've got better ideas. We're going to beat them. He said our greatest danger is that in the process of coping with the enemy we don't become the enemy. And his greatest strategic caution was, you're in a war that you know eventually you're going to win anyway. Your greatest danger is that you're going to destroy yourself by doing something that's self-defeating. And that's—I think the second war of ideas is, you have to convince the American people not to do stupid things. You know, I wrote a piece called—somewhere—it's "After the Next 9/11," which is, there's going to be another terrorist attack. And let me tell you the five stupid things people are going to say we need to do, like throw all the Muslims out of the country, spend billions of dollars more—you know, nuke a country or something. You have to—and Americans got this. Just very, very quickly: you know, Americans had a problem with the Cold War. It started in 1947 [inaudible] pick a date. Americans really didn't care. Americans assumed that the elites were taking care of that until the outbreak of the Korean War. The Korean War brings the Cold War home to Main Street. Americans get serious about this stuff and say, oh my gosh, we could actually die in this thing. A lot of angst, a lot of good sci-fi movies about robots that are really communists and radiation. And then after a couple of years Americans realize that they're not all going to be murdered in their beds, and Americans just go back to living their lives. That's kind of what we're going through now. We're in this period—first it's the Cold War ended, and we said, okay, our elites are going to take care of all of this foreign policy stuff. Then 9/11 happens. Now Americans are fearful in their beds. If there's another 9/11 they'll be even more fearful in their beds, but eventually we're going to get the security system up and running in place. And once it's up and running in place, Americans are going to trust us to kind of take care of them. So we've got this terrible thing. On the one hand you have to convince people that they need to take this seriously, make the investments and put these fundamental systems in place, whether it's public diplomacy or homeland security, to fight these guys over the long term. But on the other hand you want to convince the Americans that they can't be doing stupid things like burning the Constitution or throwing every foreigner out of the country. So that's the dilemma that we have right now.

- A. [Dr. McIntyre] I concur with Jay. I certainly agree they're not ten feet tall. The point is that there only have to be a few of them. That's the core of the problem. The issue of how do we keep this ratcheted down is a very serious one. If we were to have an attack tomorrow on a train, a bomb were to go off and kill ten people on an Amtrak train, I ask you, what do you think would be the effect in the United States? Well, that happened three weeks ago. It was a screwball with an SUV that blocked a train and killed ten people, and it didn't make any difference at all, did it? But I tell you, if someone puts one in a backpack, we're going to get that twenty-four/seven until we change the entire rail system in the United States. So how do we beat that? We'll come to that; maybe next question I'll tell you the one thing I think is missing.

Moderator: Well, before we turn it back to the audience, I'll just throw a couple of things out. One is—a little too much happy talk, so I'll be the gloom-and-doom guy. I feel like we're a little bit off-track. I don't think anybody on this panel is really worried that twenty years from now we're going to lose this war and we're all going to be with our wives in burkas and prayer mats. I don't think anybody is concerned that we'll lose in that sense. I mean, I think there's just a concern of how many more people can these guys kill before—I mean, fascism is to me a good example—let's leave aside communism. People thought when fascism arose in the twenties and thirties—gosh, this is the way to the future. We had all this utopian literature about

future fascist states and all that stuff. And fascism was destroyed effectively and quickly, but at a cost of sixty million lives. I don't think anybody—anyway, so I don't think I ever worried about us losing the Cold War in the sense of I would be addressing Comrade Admiral and lecturing on Marx at the Naval War College, but I think—in that sense, but I do think the sort of human cost and the cost for ourselves is worth thinking about. One last thing is that perhaps instead of ideology, I'll just throw you something that President Putin of Russia sort of floated as an idea. He said, look, instead of making this a war about Islamic fundamentalism or Chechen separatism or whatever it is—this was in the wake of the Beslan tragedy where something like two or three hundred children were killed. He said, look, why don't we just make this a war on anybody who would use these methods, regardless of what their beliefs are. I don't care if they're—he didn't say this obviously. But he said, I don't care if they're Chechen terrorists or Islam fundamentalists or spelling reformers or vegetarians or whatever they are. Anyone who would use purposeful killing of the innocent is the enemy in this war. And I sort of find something attractive about that. But maybe it's something we should discuss. Other questions, comments.

**Q. [inaudible]**

Moderator: Okay, other questions, comments—yes, also way in the back.

**Q. [inaudible]**

Moderator: Okay, let's take one or two and hear from you folks some more, and then we'll bring it back to the panel. Captain, when you said that—I have a poster in my office. It was the new recruiting poster for the Navy. It said, "Life, Liberty and the Pursuit of All Who Threaten It." I thought that was a sort of effective public campaign. Other questions? Yes, sir?

**Q. I was wondering what you think the likelihood of the sort of War on Terrorism between America and al-Qa'ida at the moment might become an Islamic versus Christian war; and should that happen, what would be the U.S. position, or what position should they choose?**

Moderator: Okay, let's take one last one, and then we'll come back to the panel. Yes, sir?

**Q. This question a minute ago said there was—he had a question about the strategy of the United States and this War on Terrorism. I would say that the National Security Strategy and the National Strategy for Combating Terrorism address that strategy. However, I think that it is a hundred and eighty degrees out from where it needs to be, and based on saying that it's not an ideological war. It's not based on religion. It's not based on these things that have been brought up to date. And I was just wondering, gentlemen, if you had any ideas how we could rectify the language or the concepts to bring those things—to bring that—our stated position as a government to where maybe it should be to better fight this war or to win the war.**

Moderator: Okay, can you clarify just what you say is a hundred and eighty degrees out from where it needs to be?

**Q. Yes, sir, because when you read the National Security Strategy and the Strategy for Combating Terrorism, it says that—it clearly states that it is not a war against a particular ideology. It is not a war against religion; where, if you read Osama bin Laden—one or two of the many things that he's written and said—you will see that he considers it a war against religion or a war of ideology, just based on what he says. So I just think those two things are not**

**together and maybe our assessment of the war initially maybe needs to be refocused.**

Moderator: You know what, let me suggest that we take the first and fourth questions together since they're about strategy. And if I can, I think, tweak the lieutenant's question just a little bit, it seems to me that one of the questions that comes out of what the lieutenant was asking is, what does it look like to win? I mean, if we're talking about ends and means here, how do we know when we're done? Jim, you want to start?

A. [Dr. Carafano] Yes, well, he's wrong, and he's wrong.

Moderator: Okay, so are there any other questions?

A. [Dr. Carafano] You know, I mean I actually do think we have a strategy that's evolving. I don't think necessarily you can find it clearly when you read all the fourteen different strategic documents we have, but basically it is respectful of the principles I talked about. I mean, it does have a security component respect. It promotes economic growth. It respects civil liberties and privacy, and it's basically very simply—it's got an offensive component. Go out, find the terrorist networks, destroy them, and kill these guys; and it has a defensive component, which is, provide a layered security system; and it's respectful of the things that make this country what it is, principles of federalism and free markets. And that is the fundamental strategy. And you know what? I think it's kind of about right. I think we're kind of where we were in about 1951, '52, where there was this emerging consensus or bipartisan consensus of what we think we're doing. Where I think we're short is in the—what I talked about at the end of my talk. It's the actual instruments to actually do this, to oversee it, to run it, to actually spend the four hundred and fifty billion dollars effectively. That's where there's still a lot of work to be done. So we can't be complacent. And winning is actually very simple. Winning is if tomorrow looks like today. I mean, that's essentially what winning was in the Cold War. It wasn't that the Soviet Union collapsed. Winning in the Cold War was, every day you got up in the Cold War, your life was like it was the day before. You could go out; you could get a job; you could go to school; you could marry somebody; you could think about what you want. And every day we did that, we won. We won the Cold War not in 1989. We won the Cold War in 1945 or 1946 or '47—pick a date—when we decided that we were going to stay who we were and protect that. And we did that throughout the Cold War and afterwards. So that's what winning is.

Moderator: Dave?

A. [Dr. McIntyre] Jay and I can agree on a lot of things. I don't think tomorrow is going to be like today, though. The problem is that the threat is in some ways fundamentally different, and dealing with security at home is in some ways fundamentally different from dealing overseas. I do agree we have a strategy and that we are pursuing it. Why doesn't it appear that way? There are a couple of reasons. One is that we haven't put any serious intellectual horsepower against the issue of homeland security and terrorism. They are still being treated as sort of extra issues. There is virtually no tenured professor at any university in the United States that is interested in these issues. There is no university in the United States that has stepped forward and created a course or department. Let me tell you what all the deans tell me. And I don't mean just in my school, because my school has been very forward-leaning in this. What the deans tell me is, I have to know that there's going to be a profession here before I take in a student. And I have to know that there's going to be something long-term worthwhile here before I encourage faculty members to write on this subject, because maybe they can't get tenure. So for me to create a department of homeland security or central courses in homeland

security, I've got to see that that student coming in is going to be well served. That will take three years. I've got to see they can get ten years later—that's seven years from now. It's going to be ten to twelve years before I know that there's something to this homeland security stuff so I can start encouraging people to come into the pipeline. We created an industry in security studies in the 1950s. We started with international relations and went to the issue of how do we balance what we're spending, what do we want to achieve. We created the language for strategy. That has not begun to happen in the field of homeland security in the United States. The closest I've seen come is what we're doing at A&M, which is to create a distance learning course with six courses in it. And I can't find anybody else who's doing that. Why is nobody doing that? Because there's no money or incentive system to do that. The budget for Department of Homeland Security next year for the homeland security-related issues—not rescue by the Coast Guard, not retirement—homeland security-related issues is twenty-seven billion dollars. The Department of Defense budget is four hundred and nineteen billion dollars. Where would you invest your money if you were Lockheed or Boeing? Money poured into security studies and political science in the 1950s and hard science R&D. It has trickled into homeland security issues. And until we decide that we've got a fundamental problem and put fundamental money against it, we're not going to get any fundamentally different way of doing business than what we're doing right now.

Moderator: I think one thing, as you were talking, I think is interesting—Sputnik gets launched in 1957. Eisenhower—just to give you some sense of this; students will remember this factor from lecture. Eisenhower loses twenty-two points off his job rating in a week because of Sputnik. And then within a couple of years we've got the NDEA. We've got Russian language funding. We've got guys going to Caltech. Rockets are flying all over the place.

A. [Dr. McIntyre] Our core failure so far has been in our own education, I think. Hey, we can't get everything right. Jay's right. We've done a lot of hard work. Look, go to Nebraska Avenue, where the headquarters is for the Department of Homeland Security, 4:00 in the morning, and the parking lot is full of cars. And go back at 11:00 at night, and the parking lot is full of cars. People are working hard on this. I think our core failure has been to accept that this is a long-term issue which is going to require long-term intellectual assets and then marshal those assets.

Moderator: It is sort of amazing that one rocket goes up, and pretty soon there's nine million kids studying Russian. Three thousand people die, and there's still not a scholarship to study Pashto or Arabic or whatever. Cary?

A. [Dr. Lord] I guess on the strategy issue—one thing that we haven't mentioned is the shift, really, away from the kind of Cold War strategy of containment and the kind of defensive mode that that entailed, to the kind of preemptive, preventive, more offensive mode that is really called for—I simply believe—by the phenomenon of contemporary terrorism plus the potential connection to WMD. So I mean that really has been a very distinctive feature of this administration's approach, and I mean that also should be, I think, connected to the public diplomacy issue, because public diplomacy is, after all—it's an offensive weapon. And it makes perfect sense to couple that in a larger package with these other—the more kinetic approach. But it's—again, these are very fundamentally different strategies that we're pursuing. On the question of ending the thing, I think, again, we shouldn't be too gloom-and-doom about this. Historically, if you look at other terrorist movements, there is a history of terrorism being totally crushed in countries. I mean, think of the Italian Red Brigades, for example, you know, thoroughly penetrated the—a lot of them changed their minds, the pentiti. They gave themselves up because they ceased believing in the cause. So these movements can implode and be totally wiped out after not that many years. So again, something like that could conceivably happen to al-Qa'ida,

but probably not, because of the nature of the inspiration for it. On the other hand, we could reduce that to a pretty low, and really, annoyance level. I think it's quite conceivable within, say, five to ten years.

Tom, maybe I could just go ahead and respond on the one question on the maritime component. Well, I think there are a couple of things the Navy could do. And I'm not thinking of platforms, but really it has to do with Navy education but also career paths and specialties. I mean, it seems to me that—I mentioned psychological operations briefly a minute ago. The Navy has essentially no psychological operators. The Navy also has essentially no foreign area specialists. It seems to me that you can make a pretty good case for the Navy being able to make a real contribution in that area. I won't pursue that, but it's a thought.

Moderator: Jim, you want to make a comment on the previous issue? Go ahead.

A. [Dr. Carafano] I just want to make one quick alibi to answer the question. I think the chances of a Muslim-Christian war is zero. And the reason for that is, I teach students in National Defense University. They come from Jordan and Iraq, Indonesia, Malaysia, and all these countries, and they're very critical of U.S. foreign policy. And they tell me everything we do wrong, and I really appreciate that, for their help for that. But they have no interest in having bin Laden come in their country and set up a fascist dictatorship. So, you know, these guys—I agree with Dave. They're very, very dangerous people. They need to be stopped. They can do a lot of terrible things. They're going to find some people that find them credible and do the things, but the vast wealth of the Islamic world doesn't think that a fascist empire is such a cool idea. And so it only becomes a religious war when we listen to bin Laden and let him tell us it's a religious war and then take his word for it.

Moderator: Let's move to that question, because it seems to me one of the scenarios that bin Laden was looking for out of 9/11 was to turn it into—the idea being that they would do a 9/11, we would freak out. We'd basically start blasting everything that moved. I think the first kind of cold chill that went up the terrorists' spines was when we just sat and said—you know, right after 9/11 people said what are you going to do, and we said we're thinking. But I think the expectation—I mean, this is at least one version of it that I read, is that we would go nuts. We would start nuking everything in sight. This would lead to demonstrations all over the Islamic world; in particular, the government in Pakistan would fall. Bin Laden would then be invited to come in as sort of the spiritual leader of a nuclear-armed Islamic fundamentalist state, and then we really would have this kind of clash of civilizations in a very real way. I mean, what do the rest of you think about that? Likely? Possible?

A. [Dr. McIntyre] I think you got it about right. As long as we keep our head, I think we'll be all right. The issue again, to my mind, is not the rising of a billion people against a billion people. The issue is a small number of people being armed with very terrible weapons and then influencing those people by either—by their success. And what we want to do is influence that large number of people by their failure. So I agree with you. I think that's what he was about. I think we've avoided it thus far. I think it can be avoided in the future. But it's not going to be avoided by making nice and thinking that if we just find ways to satisfy them, they'll come into the camp. You know, this is not “if only those guys would come see who we are,” like dealing with the Soviets, they'll like us better. They've been here. They saw us. They don't like it at all. And that's the core people we have to deal with.

A. [Dr. Lord] I kind of doubt that bin Laden really thought he was going to provoke us into some overreaction. I think it was quite the contrary, that he thought he would back us off. And there would not be any strong reaction. But maybe others have a different view.



Moderator: Again, I don't have any sort of cool inside info on this. This was a British account that I read that apparently they'd pieced together. But the idea was, the *Cole* wasn't enough. Bombing in Kenya and the embassy bombings in Africa weren't enough. And now that this was going to really kind of provoke an Islamic versus Christian kind of Armageddon—I mean I just don't know whether that's true. But I think there was a—

A. [Dr. McIntyre] Well, what's important about bin Laden is this. He's not a million miles—you're right, he's not ten feet tall. But it is important to understand what's different about him. Nineteen ninety-eight is when bin Laden declared war on the United States. And what makes him different from the others who had been dissatisfied in coming out of the al-Qa'ida experience and Afghan experience was his decision to fight the far enemy instead of the near enemy. So there had been Islamic governments around the world that were already having to deal with rising terror. What makes him different is his decision to go after the United States. And I have also seen those accounts, and they make good sense to me, that he was looking to provoke some sort of backlash. I just don't know whether that's true or not. What I do know is that he has now moved from being a leader to being an inspiration. And what we have to worry about is not just bin Laden somewhere pulling the strings. The guys that attacked [with] bombs, that attacked the trains in Madrid, made their plan within about a ninety-day period. So if we had penetrated their organization, you know, and been watching them for years, unless we had been in on that—they didn't know each other a long time before that. That's the problem that we're going to face in the future, is this sort of get-together: here's a good idea; let's do it.

Moderator: We'll turn back to the audience, but I'll just throw out one more statistic here to sort of torture this Cold War analogy to death, because Jim and I probably agree on it, and Cary and I don't. But this issue of small numbers causing a lot of problems—I mean, when you think about the number of Bolsheviks that were involved in the actual takeover of the Russian empire, I mean it was literally a handful of men; and at no point during the Cold War did the membership in the Communist Party of the Soviet Union ever get more than 11% of the adult population. And as we quickly found out around 1991, most of those weren't buying it, either, especially if they happened to be Kazak or Ukrainian or Uzbek. They weren't really signed onto the project completely. But it's amazing what a small number of people managed to hold the world at bay under the threat of nuclear annihilation—boiled down to maybe a couple hundred Russian males in Moscow. We have some more time for some more questions, so, please? Yes, sir?

**Q. Would the panelists like to comment on the projections for troop strength, given everything that's being said in terms of the duration of the global War on Terror? I read a lot of what you send out from Heritage Foundation, Dr. Carafano, but I'm curious, from everybody, in terms of what your views are on troop strength.**

Moderator: And there was a question right behind you—yes, sir?

**Q. Gentlemen. Globalization has created—to borrow from Thomas Friedman—the super-empowered individual along the lines of Zawahir or Usama bin Laden, the single individual who has the ability to affect global policies and actions. I'd be interested in the panel's thoughts on initiative or ways to cultivate the super-empowered individual for the good guys, for the good side of the force, and how that may or may not be a good idea.**

Moderator: Okay, did everybody get that question?



**Q. My question is a little different, reflecting both back on 9/11 which—and I don't want to say this to sound cynical, but that was the day that Americans discovered terrorism. It's not as if it was a phenomenon that didn't exist well before 9/11. So one thing that would be a concern for me when we try to think about what would be the operational definition of winning, if you will, is a kind of indeterminate outcome. In other words, if we do the defensive side right, and I realize we've got a lot of work to do—and I think several of you commented on that—I could imagine an outcome where we—maybe we're lucky. Maybe we're skilled. But where we avoid additional instances of catastrophic terrorism in the United States. But they do occur elsewhere—you know, other Madrid bombings, things of that sort. In other words, is there a risk or a danger that in some context we could decide it becomes somebody else's problem if we do well enough here over a long enough period of time?**

Moderator: Okay, and let's take one more.

**Q. I'd like to have the panel take a quick look at this from the enemy's perspective. What are their ends and means? Get an understanding or appreciation for what we're facing and maybe how to approach it.**

Moderator: Thanks, I think one question we can maybe dispose of fairly quickly is just projections on troop strength. Jim, you want to start us off?

A. [Dr. Carafano] Yes, I've written a lot of this—I think the future is going to be a sine curve, not a straight line, which means I think that—of course, ground troop strength being the big variable—it's going to go up and down. It's going to wax and wane much like it did in the first ten years of the post-Cold War era. And so what that says to me is that permanently ramping up active duty troop strength is not a good investment. What you're better off [doing] is having a large dependable reserve component that you can call on when you need to ramp up. And the other argument, I think, is that there's still an awful lot of inefficiency in the force structure left over from the Cold War. And the reason why it's there is because it was politically difficult to deal with, and now we have an opportunity to do difficult political things, like get rid of force structures that we don't need, and we ought to not just ramp up troop strength. We ought to take the opportunity to take things out of the force that we really don't need and redirect that troop strength where we do need it. So I would vote for not a large permanent increase in the active duty troop strength, particularly in the Army. I would vote for sustaining a large reserve component, and I would vote for doing things like BRAC and global repositioning and eliminating some force structures that maybe we don't need anymore.

Moderator: Dave?

A. [Dr. McIntyre] I don't know what we want to do, and because I don't know what we want to do, I don't know what kind of force structure we need to do it with. The discussion at lunch, following lunch, about we're really kind of an Anglo-American—we've had a kind of Anglo-American vision—I think is half right. I think we've also sort of had an Anglo-French vision. We've seen ourselves sort of as the inheritors and the passer-outers of the French Revolution, and those two things are at odds. One of them says we manage the world. And the other one says we change the entire world. So I don't know. I can't figure out what it is the United States wants to do. I can tell you this. You can't buy a Cadillac and pay for a Volkswagen. You've got to pick one of those two things. And I don't think—Jay and I had this discussion. It's one thing we disagree on. Look, I live with the reserves down where I live. I don't think we can draw on them much more.

They are about tapped out. I spoke to the doctors here in the northeast about three weeks ago. Some of them were on their third tour overseas. Now it's not three years. They go for ninety days at a time. Why? Because their experience is, you go four months, you lose your practice. I think we're about tapped on the reserves. So I think institutions like this need to go back and look at people like the Romans, who had a similar problem. We're trying to defend over there. We're trying to defend at home. Do we do it with forward deployed forces? Do we do it with raised levies? Do we do it with our officers and their people? Do we train them? Do we bring in immigrants and give them citizenship, which is what the Romans ended up with? We've got to figure out what we want to do and then look at ways it's been done in the past. I don't know what the answer is—how many troops—until I can figure out what the United States wants to do.

Moderator: This question about the super-empowered individual—let me piggyback onto the officer's question and say, do we really want that? I mean, do we want to get into sort of dueling charismatic figures? You know, you have bin Laden, but we have—yes, David Hasselhoff. I mean, I think I understand your question, but I mean, don't democracies sort of purposely mitigate against that?

A. [Dr. Lord] I'm not sure what "super-empowered individual" is supposed to mean. I don't see how bin Laden particularly falls in that category. I mean, he's a revolutionary leader. But, no, I mean I don't see the American analogue particularly.

Moderator: What about the question of becoming somebody else's problem? The first thing I thought when that was asked, is terrorism divisible? It seems to me that it's hard to look at it that way. It seems to me if you strike the nest, you're snuffing out the incidents wherever they occur. Aren't you?

A. [Dr. Carafano] In part that's already happened. I mean, you can make an argument that things like the Madrid bombing and the increased activity in Europe and the activity in Iraq is in large part because it's hard to get in America. It's expensive, good security. And virtually all the stuff that we have on—if you look at everything that al-Qa'ida has done since 9/11, it's all been trying to reconstitute the network, trying to recruit, trying to do fundraising, and to do that you have to prove that you're in the game. And so you go wherever you can play. So if it's Bali, you go and play in Bali. So I think you're right. One of the byproducts of us doing a better job in defense is they go and strike someplace else, because it's a war. We're not stupid people.

But the one point I did want to make in all this discussion is—and actually go back to a question this morning. The question is, how big of a terrorist attack do you have to be before you really change a society, and the answer is, pretty damn big. I mean, I went back and tried to find, well, what's catastrophic terrorism? I mean, something that really just rocks a society on its heel. And it's really, really hard to find something—even if you go back into the influenza of 1917, even that really didn't—if that had been a bioterrorist attack, it really didn't fundamentally change the long-term outlook. And so the answer is, you almost have to get into the hundreds of billions of dollars and tens of thousands of casualties to really give a country and economy like the United States a jolt. So the answer is, are you going to lose? And the answer is no, because nobody—short of a nuclear war, nobody is ever going to be able to do that in a sustained way against you. On the other hand, you can suffer these things.

And so the one thing that we didn't mention—and my nightmare is not bin Laden. It's not the enemy I know. It's the Aum Shinrikyos. It's the enemy I don't. I mean everybody has forgotten about Aum Shinrikyo. These guys had a billion dollars in assets. And if they didn't have some of the stupidest [inaudible] on the planet they actually

would have been able to field the weapons that they wanted to, because they sure had enough money to do it and enough equipment. And they would have actually been able to conduct biological strikes against the United States. You couldn't have beat Aum Shinrikyo with a public diplomacy. I mean, these guys are just—it's a freaky nutcase cult. You know? And it was a small number of people. And they weren't on anybody's radar screen. And the fact is, you're never—if winning the War on Terrorism means no more terrorist attacks, then you're never going to win. You're always going to lose, because there is always going to be terrorist attacks. Winning doesn't mean that you never take casualties and you never have battles. And so we have to steel ourselves to the fact that there are going to be terrorist attacks, some large, some small, some sooner, some later. Some of them might be quite terrible, from enemies that we never anticipated. That doesn't—because that happened doesn't necessarily mean that America still isn't going to be the country that it wants to be and still—and the world isn't going to still move forward. But I think the key point there is that winning the war on terrorism is not about eliminating terrorism, because that is simply an unreachable goal.

A. [Dr. Lord] I think [faculty] raises an interesting question, because it sort of points to, in a way, the much greater vulnerability of Europe to Islamic terrorism than the United States, and what would happen if the focus really of the Islamists were to shift to Europe, drawing on all the . . . Arabs from various countries that live there now. I mean, it could be a real nightmare. And how would that affect U.S.-European relations? It's an interesting question. You know, I don't think anybody has really thought about that. But you know, I don't think—it . . . may be a certain—*schadenfreude*, I think, is the technical term. I think it would probably help strengthen the U.S.-European relationship. I don't think we'd abandon them. I mean, I can't envision that kind of scenario offhand.

A. [Dr. McIntyre] In one respect we've already done what you suggest. That respect is that the war we declared, this global war on terrorism, is actually a war on terrorists with global reach, if you look at the language very carefully. So we have not included in that local terrorists who are attacking local governments. We said, yes, we'll exchange information, but what we have consistently said we are irate against and gone after is those that we say have global reach, which largely is defined as those that could reach us here, which is why, for example, we haven't spent a whole lot of time working against the Chechens. But we have spent a considerable amount of time working against people in that area who might come here. We're about done. I have one thirty-second point I'd like to make. We're about to wrap up. Let me tell you one thing we could do that I don't think we are doing yet and something you could undertake here. What is the thing that worries me the most? The thing that worries me the most is what Jay talked about, a single cataclysmic event. We do not yet have our minds around what it means to have a hundred thousand dead, three hundred thousand casualties, a thousand fires out of control, no water, no bridges, no communications. We do not have our hands around what a nuclear weapon in a port would look like. Now, I don't think it would require a gazillion dollars to begin to tailor regional forces that could fall in on a superstructure to respond to that. It's not entirely unlike what we contributed to in response to the tsunami. I think that would be a very good case study, for somebody to take a look at. What did naval forces do to respond to the tsunami? And understand that you're not going to go in and be in charge. You're going to go in and respond to the county sheriff and to the mayor and to the governor of the state, just as we did in Indonesia. So I think one thing we could do is take a good solid look at that as a case study from a naval perspective.

Moderator: We didn't get to your question about means and ends, but let me just put in a plug for the curriculum at the Naval War College and tell you that one of the things that we do in

the course that I chair here is, we have a case study on terrorism where we leave aside al-Qa'ida for the moment. We go back and we look at Russian terrorists, the IRA, the Algerians, and the Shining Path terrorists in Peru. And we do exactly what you've suggested. We say, why are they choosing this? What's the point? What are their goals? Why is this means something that they've chosen? We try and think about it to get sort of inside the terrorist mind-set, because that's the most effective way, we think, that you can start coming up with alternatives and solutions for defeating that mind-set. So I'm sorry we didn't get to your question on the panel, but just so you know, and folks know, we actually do tackle that question in the curriculum at the Naval War College, directly from the kind of perspective you're talking about. But I really want to thank you guys for a great panel, Carnes Lord, Dave McIntyre, Jay Carafano.

# 2005 Quadrennial Defense Review: Taking Stock and a Way Ahead

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Actually, I hate to say it, Rich, but you neglected to mention the most important credential that I have to speak to this audience, and that is, I'm a Navy wife. It's really a pleasure to be back at the Naval War College and to be able to speak to you about such an important topic.

As Rich mentioned, I served in the Pentagon from 1993 to 1998. And during that time, I had the privilege to serve under three different secretaries of defense. And all of them understood that part of their job was to be the president's representative in

the Pentagon, to ensure that the U.S. military was being used in support of the president's priorities and policies. But few understood what I think Bill Perry taught me and taught many of us who served under him. And that is, the secretary of defense is also the civilian steward of the U.S. military. And part of his or her job is to make sure that the U.S. military is stronger, healthier, more vital, more suited to the challenges of the future when he leaves the department than when he or she first comes in. And in a sense QDRs, Quadrennial Defense Reviews, are really all about stewardship. It's about using the opportunity of a strategy and capabilities review to leave the military in a much stronger posture and position than where you found it.

Let me start by saying a few words about why I think this particular review is so important. I'll give you at least four reasons. The first is that Secretary Rumsfeld is at a point in his tenure when he's starting to think about his legacy. He wants his legacy to be more than Iraq, more than the operations that we've been involved in. And so this will be a QDR that's really owned by the secretary of defense and by the senior leadership of the department, and that actually increases its potential impact.

The second reason why I think this has the potential to be very important is that since 9/11 and recent operational experiences in Afghanistan and Iraq, I think there's been a real increase in the desire for transformation, a real increase in the commitment to transformation across the department, specifically shifting the focus of investment and effort from traditional threats and challenges to more nontraditional challenges. And I think you've seen that shift begin in the most recent budget submission to Congress.

The third key reason: there are very real fiscal pressures on the Department of Defense that are going to force DoD leaders, both civilian and military, to grapple with some very hard choices. There is a clear sense that the days of the blank check post 9/11 are over for DoD. The growing deficit has increased competition for limited national security resources and the sense that choices in the QDR should be "resource neutral." That's the phrase being used inside the

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The above is an edited transcription of Ms. Flournoy's address.



department right now. Now, absent any tax increases, even administration officials today are admitting that the projected increases in the defense budget that they had once hoped for are not sustainable. So budget pressures are the third reason I think this review may be very important.

The fourth is building pressures inside the defense program itself. In essence, we have what I call the makings of the perfect storm inside DoD. On one hand we have runaway personnel costs—healthcare, retirement benefits, housing. The share of the DoD budget that's going to personnel continues to rise in a somewhat uncontrolled fashion. Secondly, we are starting to experience—and I think this will be getting worse—growing difficulties in recruiting and retention, especially in the Army. We are going to have to pay more in the future to attract and keep the quality of people we want in the U.S. military. At the same time, we're experiencing extremely high operations and maintenance costs due to current operations. And the recapitalization bill for the force is rising as the OPTEMPO increases wear and tear on equipment and actually shortens the service life of systems that are currently in the force. At the same time, everybody is aware of the need for transformation, and the investment accounts are somewhat underfunded. So all of these pressures are coming together to create some very, very difficult trade-offs that could potentially come to a head in this QDR. This is all about making choices about where are you going to minimize risk? And where are you going to accept or manage a degree of risk? If you don't have the resources necessary to cover all of your priorities, it comes down to questions of allocating risk. And that's what this QDR should really be about.

I want to spend some time going through the administration's approach to this QDR. They have terms of reference that are, I think, on the secretary's desk to be signed. That's a classified document. I'm going to talk to you based on public statements that administration officials have been making in the last couple of weeks, sharing aspects of those terms of reference.

The first point about the administration's approach is that this is going to be different from past reviews in that it's really not a strategy review. It's a capabilities review. Remember, this is an administration in its second term. We have a sitting secretary of defense who's already been through a previous review and who has his strategy in place. You all recall that in coming out of the 2001 QDR, we had a defense strategy of assure, dissuade, deter, and defeat: assure our allies, dissuade potential adversaries, deter conflict, and ultimately defeat adversaries who challenge us. This is a strategy that's been refined over the last several years. The most recent iteration of this came out just last year. So going into this review, the administration's feeling is, look, we have our strategy in place. We don't need to rethink it. This is about figuring out what mix of capabilities we need to actually implement that strategy.

Second basic point about their approach—they have a thesis going into this review. The basic thesis is that DoD has unsurpassed capabilities to meet traditional war-fighting challenges—force-on-force, military-on-military, conventional war fighting. But DoD lacks the capabilities it needs to deal with a number of nontraditional threats. Some of you may have seen what's now known as the famous quad chart which details three nontraditional types of threats: irregular threats like terrorism, like insurgencies, like internal conflict in civil war; catastrophic threats like WMD attack on the U.S. homeland, or an attack on global markets, or the loss of a strategic ally somewhere in the world; and disruptive threats, meaning technological developments, say a breakthrough in biotech or nanotechnologies or cyberspace or directed energy—some disruptive technological development that would call into question many of our capabilities and perhaps some aspects of our strategy. So the principal task of this QDR as this team sees it is to really rebalance the mix of U.S. capabilities and investment to improve the capacity of our forces to adapt to these nontraditional challenges. Adaptability is going to really be the watchword and main theme of this review.

Now, to actually bring that down to a level that people can work with, they've articulated four key challenges that they want to focus the bulk of this review on. The first is the challenge of



defeating terrorism on a global basis. The second is being able to defend the U.S. homeland against the full spectrum of attacks. The third is to influence the choices of key countries at strategic crossroads. And this one takes a little bit of interpretation. Here we're looking at other great powers—both rising powers and declining powers. For example, China and India, and even the EU, as examples of rising powers; Russia as an example of a declining power. But how do we influence the choices of other key players on the world stage? The fourth challenge is defeating weapons of mass destruction not only on the battlefield, which has been the focus on WMD for the last decade or so, but in the context of instability, in the context of terrorism. They are using the phrase “in the hands of undeterrables.” Now, some may debate whether rogue states or terrorists are truly undeterrables, but they're interested in the whole question of WMD in the context of nonstate actors and in the context of instability.

Now, the strength of focusing on four fairly narrow, if representative, challenges is that this will focus senior-level attention on a finite set of issues, and it really creates the opportunity to make substantial movement forward in those four areas. The weakness of this approach is that it really doesn't represent the full range of challenges that the U.S. military is faced with in the coming years. And it risks not giving enough senior leader attention to equally important issues, and I'm going to talk about what I think some of those are in a few minutes.

Another aspect of the administration's approach is that they want to take the capability insights and the capability mixes that come out of this focus on these four challenge areas and then test them against a much broader range of defense planning scenarios. These span the gamut of potential operations, from high-end war fighting to failed states and to loose nukes and so forth—trying to represent the full range of operations that we might have to confront in the next ten to twenty years. Now, again, this is absolutely the right approach in theory, but in practice, there are some problems.

The first problem is that the scenarios are still being developed, and we're already beginning the review. This is one of those preparation tasks that should have been happening for the last year or eighteen months, and based on the fact that the scenarios will be introduced so late, I think it's going to limit the depth of the analysis that can be done, both as to the requirements of individual scenarios and also the different challenges that are posed when you mix them in different combinations. Because we're obviously very interested not only in what it takes to do one operation but also what happens when different operations occur in overlapping timeframes, and you have to make force allocation choices and risk allocation choices across that range. So I'm concerned. I think the approach is correct, but I'm concerned that we've gotten a very late start analytically and that we won't have the knowledge that we need to make intelligent choices coming out of this process.

Now, as decisions are made, the administration is talking about being explicit about risk, balancing risk in four key areas—force management or force sustainability; operational risk; future challenges, the ability to meet future scenarios; and also institutional risk. And this was, I think, very much building upon some work that we did at NDU in the run-up to the 2001 QDR. And again, I think the good news is that you want decisions in a QDR to be based explicitly on this question of risk allocation. The bad news is that the approach that's being taken relies almost exclusively on senior leader judgment without really adequate analytic support. Overall, I think analysis really isn't likely to play a critical role in this review, or at least not as important a role in this review as in the past. There's not been a lot of analytic preparation for the review, and there's been a tendency of several civilian leaders involved to downplay and, I would say, undervalue the utility of analysis in informing senior leader judgment about the issues.

The last thing I'll highlight about the administration's approach that's a bit of a departure is the final deliverable—what's going to come out of this review. In the past, reviews have yielded clear guidance for building the defense program. And the senior administration officials this time around are talking about the end product being capabilities guidance, not necessarily

specific programmatic decisions. And they've introduced the concept of a rolling QDR, meaning that the decisions will be made over time, during and after the review, as things become ripe for action. And that means, I think, in practice that some of the most contentious issues, the trade-offs on platforms and the investment portfolio may not actually be clear until we get to the next budget submission in early 2006.

Now that's a description of how the review is being approached by Secretary Rumsfeld and his team. Let me step back and give you a sense of what concerns me about what's missing in this approach, and there are a number of critical issues that I think should be central to the review but are not central to this review as it's been outlined so far.

The first is the need to put DoD operations in the context of interagency operations and to really use the QDR as a mechanism for pushing for interagency reform. Every operation we conduct today, every operation we're going to conduct in the future, is fundamentally interagency in character. And when we are experiencing operational failures or we're experiencing successes that are much more costly than expected, as in Iraq, this tends to be due to lack of interagency planning, lack of interagency unity of effort, lack of rapidly deployable interagency capability from outside of DoD. So I think we're in a position where, to really create success on the ground, we need to be thinking in terms of interagency concepts of operations, clear divisions of labor among agencies for key mission areas, strengthening integration mechanisms at the strategic, operational, and tactical levels and so forth. And it's of great concern to me that that is not really on the table at this point.

The second key issue that's missing, in my mind, is a focus on the metrics that we're going to use for sizing and shaping the U.S. military in the future. This administration says this review is about capabilities-based planning, which I actually think is a very positive development. But at the end of the day, even after you've done capabilities-based planning, you still have to answer the question, how much is enough? And it gets, again, back to the question of, where am I going to minimize risk, where am I going to accept or manage risk? In the last QDR, the administration put out a metric called 1-4-2-1 to size and shape the U.S. military. One referred to having the capability to defend the U.S. homeland. Four referred to being able to deter forward in four critical regions of the world simultaneously. Two referred to being able to conduct two swift defeats of aggression, meaning go in, defeat the aggression, roll it back, and then come right back out. And the last 1 referred to a decisive win, meaning regime change, postconflict reconstruction, and so forth—winning the peace and in a particular war fight. So that was the metric coming out of the 2001 QDR. Now, everyone outside and inside the administration agrees that that has pretty much been overtaken by events with Afghanistan, which was not even in one of the four critical regions identified, and by the experience of Iraq. So the obvious question is, what is its successor? What types of operations should we size and shape the force for? How many should we be prepared to conduct simultaneously? And with what level of risk in different areas? And yet when you talk to people involved in the review, they say that's not a key focus. We're not planning on putting a lot of energy into coming up with what that metric should be for the future.

The third key missing issue, in my view, is a look at the appropriate roles and missions of the reserve component and the division of labor between active duty forces and reserve and Guard forces. The current utilization of the reserve component is creating enormous strains on parts of the force, especially the Army Guard and reserve, and, I think everyone agrees, is unsustainable over a long period of time. There is a de facto shift taking place. We are taking a force that was really structured to be a strategic reserve, and we're now using it as an operational reserve. So I think there is some attention that needs to be paid to the question of what are the appropriate roles and missions of the various reserve components in major combat operations, in homeland security, as part of the rotation base for long-duration stability operations abroad, and so forth? We need to also reevaluate the basic contract between the citizen soldier and the U.S. government and look at the rules governing their employment, from the mobilization

construct to tempo guidelines—how often we feel we can call people up without having them leave the force—to compensation benefits and equity issues. We also need to ensure that the reserves are properly organized, trained, and equipped to support the challenges of the twenty-first century. This is a critical issue, again, that is just not on the table in this review.

A fourth key issue is the future challenges associated with conducting stability and reconstruction operations. Even though that is what's giving us the greatest challenge right now in Iraq and elsewhere, and even though these kinds of challenges are likely to arise in the future, whether it's in postconflict operations or in the event of a state failure, this is not one of the key challenges that the QDR is focused on. I think there are a number of key questions that need to be addressed here. What is the right balance between active and reserve? What's the right capability mix for conducting these operations now that we understand that they're not necessarily lesser included cases of high-end war fighting? Do we need a larger Army and Marine Corps to handle the rotational requirements of these very long-duration operations? If you look at the projected force, even the transformed force with plans for Army modularity and so forth, and you look at the projected level of demand, and you look at our stated PERSTEMPO policies—you know, we want to try to get to a situation where we're not deploying reservists more than once out of every five or six years. We want to get to a point where we actually let active duty people stay home two years between each deployment at a minimum. If you look at those three factors, you cannot square the circle. You cannot meet the PERSTEMPO guidelines with the planned force at the projected level of demand. To me, that is the elephant sitting in the room of this QDR, and it's not on the table to be addressed, if you are to believe the terms of reference that are about to be signed out by the secretary.

The fifth key challenge is allies and partners. Just as everything we do is going to be interagency in the future, everything we do in the future is also going to be either with allies or coalition partners. We need to look at the capabilities that allies and partners can bring to the table much more closely, and to look also at what kinds of integration mechanisms we have in place to really create unity of effort, not only at the interagency level but at the international level—again, another key issue that seems to be on the sidelines of this QDR.

The last one I'll mention, and there is a longer list here, but I'm going to try to restrict myself to a half dozen in the interests of time. But the last big issue that I see that's not necessarily going to be addressed is the role and requirements for nuclear weapons. In the past, nuclear issues have been examined in a separate parallel review to the QDR, called the Nuclear Posture Review. This team has decided they don't want to do another Nuclear Posture Review. The secretary is literally about to make a decision sometime this week on whether or not nuclear issues should be integrated into the QDR. Now if you go out to STRATCOM and you talk to folks there, they will tell you that they need another look at nuclear issues. They need some additional guidance on where we're going with things nuclear in the future. What size should the stockpile be? What should our force posture be? What kind of infrastructure do we need to keep in place to hedge against future threats and to sustain the force? Do we need modernization or not? Do we need nuclear testing or not? All of those issues need to be addressed, and again, right now there isn't a foothold for those issues in the QDR.

Let me turn now to say a word on the process, and this is a particular challenge for this QDR. A truly successful QDR requires buy-in from some key stakeholders. The first set of stakeholders is the military leadership inside the department. These people are going to have to take your guidance and write it into their program and budget submissions. The second set of key stakeholders are members of Congress who are going to have to vote to appropriate funds to implement whatever plan the administration submits to the Hill. Now this means that part of any QDR has to be intensive outreach to those stakeholders—the military internally, the Congress externally. The track record of this administration—I'm trying to be diplomatic here—but the track record of this administration, and this secretary in particular, on engaging stakeholders inside the Pentagon and particularly on engaging stakeholders on the Hill has not been good to

date. I am always willing to hope that things can change. But I think if Secretary Rumsfeld really wants this QDR to establish his legacy, he has a lot of missionary work to do, both inside the building, with his military counterparts, and outside the building, on the Hill—particularly on the Hill. When you walk in the Pentagon today, there is a sense of urgency. We are a nation at war. We have more program than budget. We have hard choices to make. How are we going to do this? When you go up to the Hill, when you talk to even the authorizers and the defense appropriators, there's not a sense of urgency. Maybe there's some with regard to reserve component issues because they're hearing from constituents. But there is not a general sense of urgency about the state of affairs and the military. That is a problem. If you're putting together a QDR, you want to get it through Congress, and there is no shared sense of urgency.

Before I conclude, I want to say a few things about the way ahead as I see it. And this is what I think we should be doing, not necessarily what I think we will do.

The first point is that we should not solve the deficit problem on the back of national security spending, and DoD in particular. We are a nation at war. We need to revisit our tax policy in this country and ensure that we have the resources necessary to reduce risk to acceptable levels across the national security accounts, not only within DoD but in other areas like homeland security and resources for deployable capacity in the civilian agencies.

Second, we need to broaden the debate to include not only what the SecDef wants to focus on in this review, those four challenges, which are very important issues and deserve a lot of attention, but we need to broaden the discussion to include the full range of issues that the secretary needs to focus on if he is going to be a responsible and wise steward of the U.S. military for the future.

The third key point is that we need to think bigger than DoD in designing solutions to future national security challenges. We need to tackle this question of interagency reform. We need to tackle this question of building operational capacity in the civilian agencies to partner with DoD—and it may end up being a lot more cost-effective to build some of that capacity up-front than it is for the military to suffer perpetual mission creep and longer-than-necessary missions in places like Iraq over the longer term.

The fourth key element of my way forward is to put much more focus on incentive structures. What kind of incentive structures do we have in place in the department, and in the national security structure more broadly? And here I go back to the original Goldwater-Nichols legislation. I think one of the most powerful elements of that was the creation of the joint service officer model. Essentially it flipped the incentive structure for rising military officers on its head. It used to be that joint service was a detractor: You leave your service, you're less likely to get promotion, less likely to rise to the top. Now everyone understands that if you want to make flag, if you want to make general officer, you've got to get that joint duty somewhere. You've got to get the kind of joint education that many of you are engaged in here. So, we need to think hard about incentive structures. Sometimes those are the most powerful changes that can be made, coming out of a review like this. How do we want to incentivize rather than discourage greater jointness across the interagency? How do we want to incentivize a healthy competition of ideas and constant innovation within the department to increase performance? How do we want to incentivize our military leaders to give their best advice and counsel to the civilian leadership even when that advice and counsel may not be popular? How do we want to incentivize the best and brightest to actually sign up to serve in the U.S. military? So, incentive structures—I think they're subtle. They're hard to get right, but they can be extremely powerful if you do get them right.

Let me just conclude by saying that I think this review does have the potential to be very important in terms of its impact on our defense program and on the future direction of the U.S. military. But I also want to leave you with a note of caution: The same was said of past reviews that produced only modest results. QDRs typically inspire very high hopes in the beginning and

almost always some disappointment as they conclude. They seem never to live up to their potential. But given the challenges we face, I would argue that the nation needs this QDR to be different. It needs this QDR to break the mold, and it remains to be seen whether this review will actually successfully take on, not only the four challenges that have been identified, but the full range of challenges that are really on the U.S. military's plate going into the future. So let me stop there and thank you and take your questions.





## Michèle Flournoy Questions and Answers

Michèle Flournoy: Thank you. I'll take your questions. Yes, sir.

**Q. As I listened to your talk, one thing that struck me, when they leave items off for consideration, do you get a sense that that's in order to keep things off the budget? I mean they seem to have a propensity to be doing that. Is there a strategy? Would you just comment on that?**

A. I think that keeping certain issues off the table stems from a range of motivations. Yes, there are some issues that they would rather not have to address. I think this administration is very disinclined, for example, to increase the size of our forces' end strength in the Army and the Marine Corps, for example, structure in the ground forces. And so one way of keeping that debate at bay is to simply define a fence around the issues and keep that outside the fence. I think in other places they recognize that there are important issues, but there's only so much you can ask one review to do, and they'll deal with those other issues in the normal sort of budgetary cycle in a more incremental fashion. Yes, in the back.

**Q. Yes, hi. Two questions: Do you believe that the draft will be necessary, and are we going to give up the Abrams Doctrine? And the other question is, when you're talking about joint operations, how far down the pike does it have to go? We have had experiences even in New Hampshire of air guardsmen, truck drivers, going over to Iraq and doing force protection for Army truck drivers, and that created more problems than was anticipated because of the cultural differences. So is jointness really a higher up, or does it go all the way down to the individual soldier?**

A. Both good questions. I personally hope that we don't get to the point of having to reconsider the issue of the draft. But I do think we have to consider the question of growing the all-volunteer force if we believe that the level of demand is not going to dissipate any time soon, over the next several years. My concern is that if we leave the question of growing the all-volunteer force too late, we will foreclose our options to do that in an ordered and smart way, and we may end up having to look at a draft even when that was a direction we preferred not to go in. So that's my concern. This takes some proactive action on the part of the administration. If you leave it too long, you may have to face the question of a draft, which I think would be counter to where we want to go. On the question of jointness at what level, I think you raise a very important point. And I think ideally, I mean, the real focus of jointness should be at the level of, particularly, command structures and so forth, and maybe down to the unit level operating side by side. I think it's a lot to ask for every single member—individual member of the force, active and reserve, to be fully able to operate jointly. I think that's a very high bar. And while I think it's wonderful when we achieve it in some cases, I think where we really want to focus jointness is on ensuring that units can work together when necessary. But your example raises exactly—goes back to the question of why are we sending Air Guard folks to go do force protection for Army units. It's because of a more fundamental shortfall that we're not addressing on the ground force side. Yes.

**Q. Ma'am. You were talking about, I guess, arguing more than 50 percent of our TOA is manpower accounts. And it is going to take some significant**

**reform to push those numbers down. The draft is one, obviously, because you don't have to pay people that you conscript as well. There's been some talk by some authors with regard to longevity of service in order to qualify for a greater benefits package. The healthcare benefits are migrating to Medicaid. Can you discuss some of the options that we have to reduce that burden?**

A. I think that—I personally believe that the dollars we spend to pay for our truly professional force are worth it. I think the biggest single item driving up personnel costs is health care. And this is not a problem just for DoD. This is a national problem for everyone in this country. But I think we have to look at much more creative solutions in health care to try to drive down those costs. In my view, there's very little reason that DoD should try to own and operate a healthcare system for military members. I think DoD wants to ensure a certain level and quality of care to everyone who serves, but I think that could be done with contractual arrangements with much great efficiency and at lower costs. And there have been a number of studies showing this. This is a political question that we need to address. I think, relatedly, we also have to address the question of what kind of health care are we going to provide to returning reservists, to veterans in general, and I don't think we've worked through those issues adequately from either an equity standpoint or from a cost management standpoint. But if I were going to focus my attention, I would focus first and foremost on the healthcare question, because that's really the long pole in the tent. I would also ask you to re-ask the question when Steve Koziak is up here, since he has done a study on military compensation and benefits and might have some other ideas. Yes, way in the back.

**Q. [inaudible]?**

A. Well, I think you have to strike a balance. I'm not saying contract all health care out, because I do think you need a certain medical capacity that's operationally deployable to the field inside the U.S. military. And you also need—for whatever is on active duty status, you need viable jobs for them when they're not deployed. So I don't think you can completely contract everything out in the healthcare arena. What I'm simply saying is that I think we can go farther than we have in that domain. Yes?

**Q. Yes, Michèle. I want to push you a little farther on the virtues of capabilities-based planning because if the presumption is that strategy is about choice and tradeoffs, and you've emphasized that it's essential in this review, capability-based planning is a guarantee that you don't make choices, that you leave the future open, that it's a little bit of all of the above. How do you reconcile those two possibilities, particularly in terms of, as you pointed out, the lack of a metric? Absent a metric, what are the decisions you're making?**

A. I think what capabilities-based planning is useful for is to ensure that you are looking at a fully representative broad range of scenarios and challenges, that you're not treating things as lesser included cases that really shouldn't be treated as lesser included cases. So I think that is the strength of it. But once you go through this process of looking at different scenarios and different combinations, I agree, you have to come up with some judgment, either about the threat or a threat-based judgment about where you're going to accept risk. You have to say, okay, at the end of the day I am going to be prepared to be able to handle aggression in one theater of the world, in two theaters of the world simultaneously. I want to be able to conduct two medium-size or one large-scale stability operation at the same time. I want to be able to defend the homeland at all times. I mean, you have to make some judgments about how much of a certain type of

operation you want to be able to conduct simultaneously with other activities. And that gets to this risk allocation question. If I'm absolutely taxed and I have to give up something somewhere, where am I going to give it up? Am I going to give it up at the high end? Am I going to give it up at the stability operations end? Am I going to hope that some part of the homeland security mission really doesn't come to me and I'm going to count on civilian agencies to do that? I mean, you have to make those choices, or else at the end of the day you don't have the basis for making the hard trade-offs you have to make. So the sort of purist approach to capabilities-based planning I don't buy. I think at the end of the day you have to come back to some judgments about numbers, types, combinations of operations, and how you're going to accept or manage risk. Yes.

**Q. Along those same lines, you talked about the delay in the scenario testing, which is kind of like the acid test, I think, of the capabilities. What factors cause the delay you mentioned, is point one. Point two, as you said, we seem to be missing metrics in this second go-round. What metrics would you suggest we use?**

A. Good question. The delay in the scenarios—I think it comes from a couple of things. One is, it wasn't clear a year ago whether this secretary would really put much emphasis on this QDR, whether he would see it as a primary vehicle for sorting out his legacy or not. Another thing is, we are a nation at war. People are pretty busy in the Pentagon, worried about the here and now. And that's always going to detract attention from where we want to go in the future. There is a understandable emphasis on current ops, and a lot of our analytic capability has been refocused on how do we survive the current demands, if you will. So that's understandable in some way. But I think another reason for this is that in some ways this secretary and this leadership know a lot about where they want to go in this QDR. And this goes back to my point that when I ask people the same question, they say, you know, analysis is overvalued; analysis tends to bog you down in the status quo. It becomes a defensive position for every service to defend their parochial interest. We think senior leader judgment is a lot more important. So that's where we're going to put the emphasis in this review.

In terms of the metrics, what I would use—I actually think 1-4-2-1 is a good place to start and then say, where do we change that? Obviously, defending the homeland against the full range of attacks—that has to stay in. I believe—I mean I'm the person who used the forbidden word “shape” in the '97 defense strategy. It was shape, respond, prepare. I believe that it's enormously powerful to have U.S. military forces out there in the world in peacetime, engaging, influencing, shaping the security environment. And so I think you want to keep a number of—you do want to be able to be present in shaping in a number of critical regions in the world at the same time. I think as a global power with global interests we also, we can't be a one-theater force. We have to be able to defeat aggression in more than one theater at a time, or else we're going to set ourselves up where one adversary takes us on and another sees that as the window of opportunity for him to make trouble, too. So I do think we need a two-theater force.

I think the real issue comes in this question of decisive win. There is a current on the civilian side of the Pentagon that the answer to future stability operations is “Never again. We're just not going to do Iraqs the way we did Iraq again. And that's the answer.” I agree that this particular war we had choices about whether to do it and when to do it and how to do it. I don't believe that's going to be true in every future case. I believe there will be times—for example, what if Pakistan were to become a failed state? Pakistan with nuclear weapons, with Islamic extremists inside the country with nuclear weapons. I mean, that is a nonoptional—we're going to have to do something about that situation. I'm not telling you what the operational concept is. I'm not arguing to go

in and occupy the country. I'm just saying that is a situation where any president is going to have to respond. It's not going to be an optional situation. You can think of others. Instability in Cuba, with waves of Cuban immigrants coming into Florida—that's going to create a domestic crisis for a president. He's going to have to do something. Will it be a military response? I don't know. But our job in DoD or their job now is to create options for the president. And we need to be able to think—we can't assume away the problem of stability operations. We have to assume that in some cases our vital interests will be involved, and we need to have the capacity to deal with those situations. So I think that's where I would put more time and attention, to thinking through what combination of those do we really think we want to be handling at the same time. And what does that mean in terms of where you accept or reduce risk? Yes?

**Q. Your juxtaposition of the decisive win idea and your earlier comments about force size raise an interesting point, because a previous instance where our country was in a long-term conflict or at the end of a long-term conflict, we had to decisively win in essentially two theaters and have a regular rotation that was sustainable for half a century in both the Pacific and in Europe. Are we looking at a force size? Does that suggest a force size, in your opinion, that would be comparable to what we had to sustain that?**

A. I think if you get to that point, you are in an equivalent of a world war. And at that point, I think you need to think about a draft, mobilizing national resources beyond what's in the professional military, if you're really trying to do that level of operation. I think that's a bridge too far, just in terms of even recruiting an all-volunteer force that large. So I do think there is—but I think, again, that's something that should be talked about, thought through. You know, where is that point where we've got to go beyond the all-volunteer force to actually mobilize on a much more national basis? But that's not part of the conversation right now. Yes, sir?

**Q. Ma'am, with the major threat that we have today, with small threats scattered all over the globe, do you ever see the possibility in the near future of contracting out some of these operations so that we can concentrate on the homeland? Is that a possibility that could be considered in the near future?**

A. When you say contracting out, what do you mean?

**Q. Yes, find a security company, contract out a job, a mission, give them a mission—take out these terrorists in Pakistan, or something of that nature.**

A. I would certainly hope not. No, I mean, I think, again, what you're getting at is this point that we can't treat the global war on terrorism, we can't treat dealing with insurgencies, we can't treat dealing with instability as a lesser included case of war fighting. We have to think through the demands that those, the steady-state demands, if you will, that those types of activities—which I agree will likely be a decade- or decades-long activity for the U.S. military—we need to think about how to size and shape the force to sustain that activity over time. And I don't think there is any serious discussion. I'm glad to say there's not serious discussion of contracting that out. Where I thought you were going with this is that I do think the U.S. needs to put much more investment in terms of working with coalition partners and allies to build up their capabilities to handle some of these threats in their region. And one of the reasons we're plowing more resources into our special operations community is not only for the global manhunt, if you will, of going after terrorist organizations, but also trying to increase our capacity to work with other militaries and ensure that they have the capabilities they need to deal with local threats and to establish a degree of stability in their AOR. Yes?

- Q. What is the mechanism, or how are your analyses being passed onto the Office of Secretary of Defense, and are they listening?**
- A. Well, no. I mean, to be fair, we have a big study, called Beyond Goldwater-Nichols, that has had multiple phases. And to the credit of the department, they have been very open in terms of—we've briefed the study in the tank many times with the Joint Chiefs. We've had several sessions with Secretary Rumsfeld and Secretary Wolfowitz, so they have been very receptive of outside analyses, to their credit. My experience, to be frank, is that it's—that you can have a very positive session, but you don't always know sort of what happens after you walk out. There are a number of recommendations that were very well received that I heard with my own ears the secretary give guidance to his staff: Let's do this. And a year later, you know, we're still waiting for that implementation. Now, that could be that we really weren't as smart as we thought we were, and it's really a bad idea upon examination, or it could be that they're having trouble actually moving from the decision-making point into the execution phase and making things stick. So I do think they're open to outside analysis. I think they've struggled with the implementation piece in making decisions stick. Yes?
- Q. Ma'am, has any thought been given to creating a group to study incentivized structures? You mentioned about incentivizing structures. I believe the QDR is an excellent avenue for bringing it to the table. But when speaking about interagency-type operations and using all the elements of national power, would it make sense to have a group, a working group, under the National Security Council, or something to the effect where the Department of Defense is a player alongside other elements?**
- A. We've got it. I'll do a little unpaid advertising here. CSIS is just bringing to conclusion the phase two of its Beyond Goldwater-Nichols effort, which has a huge focus on inter-agency issues. And we are putting forth a sort of integrated package of recommendations that would do several things. First is, strengthen integration mechanisms for planning and oversight at the Washington level, at the sort of COCOM regional level, and at the field level. Second is, create funding mechanisms that actually enable people on the ground to have the flexibility to create momentum early in these operations rather than waiting six months for the AID money to start flowing. That's a critical window of opportunity. We don't currently have the sort of flexible funding mechanisms to really make change happen in that key period. A third element is going to be creating operational capacity outside of DoD—specifically, a cadre of civilian experts, a couple of hundred that would be rapidly deployable to an operation, as well as the idea of a civilian reserve where you have former ambassadors, former AID team leaders, former people with experience who could be called upon to come and lend their expertise to a particular operation. And the last piece is, we've developed what we think is the inter-agency analogue to the joint service officer model, which creates a career path for civil servants and foreign service officers that ties promotion to SES to interagency education experience that gives them opportunities for better pay and benefits, accelerated promotions, and all kinds of incentives to get that interagency experience and to create the human foundation for interagency jointness. So take a look at what we roll out next month, and if we haven't done a good enough job, then call for another taskforce. Yes?
- Q. Ma'am. It kind of spins off that question. To make this interagency review actually happen, you said that that was your first item that is off the table. What is it going to take to look at the interagency seriously, and maybe even institutional reform? You know, the Hart-Rudman Commission came out with some proposals, and not too much has happened in there, either.**



A. Right, we were joking before the session started that it seems that in Washington you have to have at least five outside groups recommend a reform before it gets seriously—we're hoping to be the fifth group to recommend interagency reform, because it started with the Commission on Roles and Mission. It went through the Hart-Rudman Commission. It went through a number of others. And we are still banging on the table for the same issue. I think what it really takes—I mean DoD can play an extremely useful role on the Hill, calling for this, because there's a tremendous reluctance in Congress to build any capacity in government outside of DoD. I remember back to the nineties when the Congress was cutting IMET funding. The State Department could not get traction on the issue. It was only when all—they were then called CINCs. All of the CINCs, with Denny Blair in the lead role, marched up to the Hill en masse and said we want you to give more money to the State Department for IMET funding because it helps the U.S. military. Congress completely did a hundred-and-eighty-degree about-face and increased funding as requested. So I think it's tremendously valuable to have the U.S. military saying we need partners. We need capacity to work with us, so we don't experience mission creep, so we don't get bogged down within our next exit strategy. And when you make that link in the minds of the members of Congress, that will help. That said, DoD cannot lead this process. I mean, this is an issue that has to be taken on as a presidential priority, and it has to be a process that's led within—from the NSC on down. Or it has to be imposed from the outside, as Goldwater-Nichols was. But again, my reading of Congress is, there is not that building sense of urgency to underpin an external reform effort. So it's got to come from within, inside. And again, my reading of this administration is that it's not—they're working the issue on the margins, trying to get better integration here and there. But they're not sort of taking a big picture of, how do we reorganize this system to work better for the future? Yes?

**Q. The Reserve Forces Policy Board about two years ago, and also Heritage Foundation and other organizations, have advocated mandatory service rather than just draft to your mandatory service, sort of like the Israeli model. Do you have a view on that and position, in terms of how it goes along with QDR and where we're going as a nation, and not just within the military, because the interagency is basically a military-civilian interaction on a continuum.**

A. I'm glad you asked. I do have a view on this. Right after September 11th, a team at CSIS came together, and we thought that what we could do—we wanted to do something to help. We thought what we could do is kind of look over the horizon and try to develop a campaign strategy for what we thought would be a very protracted conflict or challenge. One of the key recommendations of that effort was called *To Prevail: An American Strategy for the Campaign Against Terrorism*—was recommending a national service. And we weren't talking just about military service. Military service would be one option within that category, but we felt that part of the long-term strategy for prevailing in this conflict is to mobilize the American people, to make them feel that every single person has a role to play in making this country safer and transforming the international security environment over the long term, and so forth. And that national service was one key outlet for that. There is no reason that you should have the FBI and CIA switchboards flooded with people who have linguistic capability, who have relevant cultural knowledge, area experience, and so forth, and have the majority of them be turned away, frustrated that they can't figure out how to plug into the system. We need some program for national service to enable people to be a part of what is going to be a very long and protracted campaign. So I'm all in favor of that—not just military service, but national service more broadly. Yes, sir?



**Q. I don't normally do this, because you know my story about the microphone. But one question, since you're on the issue of the interagency piece. And we chatted a little bit about this before we came in this morning. How do you see the interagency interdisciplinary work evolving in the education domain? We've talked about the thinness of the agencies and their ability to be in all the different places that they need to be experientially, and when we add education to that agenda, it just seems like a bridge too far. What are some of the notions that are currently being discussed? What are some of the critical impediments that you see there?**

**A.** Let me deal with education and training separately. On the training part, in the phase one report of our study, we actually recommended the creation of an interagency training center, a sort of center of excellence. It could be jointly run, for example, by National Defense University and the National Foreign Affairs Training Center. That would be a place that would provide training to people who were involved in the planning and oversight of interagency operations at all levels, could provide predeployment training for interagency teams who are going over to a specific operation, could be a repository for lessons learned and best practices so we don't reinvent the wheel at the interagency level every time we go into an operation, and so forth. So it's creating a center of gravity that would do training, lessons learned, collection dissemination at the interagency level. I think that's a very important piece. Beyond that, I think there is a broader educational component. I was relating a story to the admiral before we came up here about a dear friend who I've known since he was a major, lieutenant colonel. And he's now a division commander overseas. And you know, six weeks before he was taking his division over, he realized that a huge part of his job was going to be dealing with interagency and coalition matters, and he was smart enough to know what he didn't know. He had gone through all of the normal PME processes. He had never had a real focus or any real education to prepare him for this responsibility he was about to take on. Now, the good news is, the U.S. military is full of very smart, entrepreneurial people who know what they don't know and know how to go plug that gap for themselves. So he created for himself a six-week crash course on postconflict operations and interagency issues and coalition management and all of this, and he went over very prepared. But that was only because he prepared himself. The system did not serve and support him adequately, given the responsibility it was assigning to him. So I think we have to address that. I also think that if you take a very long view of this, you're breaking down the cultural stovepipes between agencies, encouraging better understanding, development of standard operating procedures, common ways of doing business—all of that has to rest on a foundation of education. One of the big critical challenges we have right now is, what do you train people to? What do you educate them to? We're lacking interagency doctrine, interagency concepts of operations, interagency ways of doing business. I think that's one of the things we've called for creating, so that you have some standardized approach that doesn't change from administration to administration on basic ways that we're going to operate together. Then you can start getting some traction in educating leaders for future contingencies. Thank you.



## Panel III

### 2005 Quadrennial Defense Review: Issues and Options



*Panel III moderator Kenneth Watman (far right) leads Ronald O'Rourke, Michael E. O'Hanlon, and Steven Kosiak in a discussion of the 2005 QDR.*

*Moderator:*

**Dr. Kenneth Watman**

Dean, Center for Naval Warfare Studies, Naval War College

**Mr. Steven Kosiak**

Director of Budget Studies,  
Center for Strategic and Budgetary Assessments

**Dr. Michael E. O'Hanlon**

Senior Fellow in Foreign Policy Studies,  
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# The 2005 Quadrennial Defense Review: Matching Resources with Requirements

**Steven Kosiak**  
**Director of Budget Studies**  
**Center for Strategic and Budgetary Assessments**

*The following is an edited written statement summarized by  
Mr. Kosiak in his opening remarks.*

U.S. funding for defense has increased dramatically over the past five years. Including the cost of ongoing military operations, the country now spends nearly \$200 billion more a year on defense than it did in 2000. In 2005, even adjusting for inflation, funding for defense will exceed the level reached in 1968, at the height of the Vietnam War and in 1985, at the height of the Reagan buildup. Moreover, under the Bush Administration's newly released budget request, funding in the Defense Department's regular, annual appropriations bills is projected to increase in real (inflation-adjusted) terms through 2009.

Notwithstanding today's near-record defense budget levels and projections of continued growth, however, a central focus of the Defense Department's ongoing Quadrennial Defense Review (QDR) is likely to be—or at least should be—the question of how best to scale back its plans. This is because the Defense Department's current long-term plans are unaffordable within likely future budget levels.

At \$419 billion, the fiscal year 2006 Defense Department budget request includes a slight reduction, of about \$3 billion, compared to the projected 2006 level in last year's plan. Altogether, some \$13 billion less would be provided over the 2006–09 period than was included for those same years in last year's plan. This represents a reduction of about 1 percent compared to the old plan. The biggest cuts are focused on a range of acquisition programs. Among other things, the new plan calls for buying fewer F/A-22 fighters, DD(X) destroyers, LPD-17 amphibious ships, Virginia-class attack submarines, and V-22 tilt-rotor aircraft than previously projected.

Just how real these cuts are is debatable. Even with these proposed reductions, the new plan still calls for increasing procurement funding over the long term, from about \$78 billion in 2006 to \$119 billion by 2011. Moreover, many of the proposed reductions in planned weapons purchases are projected to occur only toward the end of the decade. The fact that the administration is requesting funding in its \$82 billion 2005 emergency supplemental for some programs—such as the Army's modularity initiative—not directly related to the war in Iraq and other military operations also makes it difficult to discern just how seriously to take the topline reductions (compared to last year's plan) included in DoD's latest plan.

All that said, it is difficult to escape the impression that things are likely to get considerably tighter for defense, and weapons acquisition programs in particular, over the next several years—and especially over the longer term. Two factors, at least, suggest that substantial additional cuts will have to be made in coming years.

First, growing concerns over the size of federal deficits are likely to take a toll on defense spending. Over the past four years, the long-term fiscal picture has dramatically deteriorated. In January 2001, the Congressional Budget Office (CBO) projected federal budget surpluses totaling about \$5.6 trillion over the FY 2002–11 period. By comparison, CBO now projects that the federal government will run deficits totaling some \$855 billion over the coming decade. And, as CBO acknowledges, its "baseline" projection makes a number of assumptions that may be

unrealistic; for example, that tax cuts currently set to expire in 2010 will not be extended. Projections based on more realistic assumptions about tax cuts and other factors suggest that total deficits could total some \$4–5 trillion over the next 10 years.

It seems unlikely that Congress will cut the administration's defense budget request for FY 2006. However, over the longer term, once a decision is made to address the ballooning federal deficit, history strongly suggests that cuts in defense spending—or at a minimum slower rates of growth in defense spending—will be part of the solution adopted. The 12 percent real reduction in defense spending that occurred between FY 1985 and FY 1990, before the end of the Cold War, in large part reflected a bipartisan effort to begin reducing deficits.

Second, even if DoD were able to achieve the funding levels projected in the administration's new plan over the next six years and could sustain those funding levels in the face of ballooning federal deficits, DoD would probably not be able to execute its very ambitious modernization efforts and other plans. If history is any guide, DoD's major weapons acquisition programs are unlikely to meet projected cost goals. Similarly, operations and support activities (e.g., military pay, health care, and a wide variety of operations and maintenance functions) are likely to cost more than anticipated.

Under the administration's new plan, Defense Department funding is projected to reach \$502 billion by 2011. However, estimates by the CBO and others suggest that executing existing plans could require substantially higher DoD funding levels, perhaps an additional \$50 billion or more a year over the long term. Since growing deficit pressures seem likely to preclude simply buying our way out of this problem, further cuts will almost certainly need to be made.

The good news is that the United States may be able to adequately meet its security requirements with more affordable plans than are currently projected. Doing so will likely only be possible if the Defense Department—through the QDR and other measures—pursues a combination of four different options.

First, the Defense Department must expand its efforts to seek efficiency savings. This means continuing its outsourcing initiatives, the new round of base closures set to begin this year, and a range of other initiatives aimed at improving the Defense Department's business operations. But it also means improving the military's compensation and personnel management systems to make them more effective and cost-effective.

Military personnel costs have increased dramatically in recent years. Over the past six years, military compensation per active duty service member has grown by some 33 percent in real terms. A substantial increase in compensation was probably appropriate, given the stress under which U.S. forces, and especially U.S. ground forces, have operated in recent years. However, as implemented, these increases were much less cost-effective than they could have been.

Notwithstanding strong evidence that cash benefits, and especially targeted cash increases, are the most cost-effective forms of compensation, more than half of the increase in compensation provided since 1999 has been provided in the form of noncash benefits—primarily for military retirees—and less than 10 percent of the increase has been targeted. Nothing is more critical to the effectiveness of the U.S. military than its ability to attract and retain quality personnel. However, unless the Defense Department changes its approach to military compensation it is likely to end up with the worst of both worlds—continued high growth in personnel costs and continued, or perhaps worsening, problems with recruitment and retention.

Second, the Defense Department will have to scale back its modernization plans. CBO estimates that to implement current modernization plans—assuming historical rates of cost growth—the Defense Department would need to increase procurement funding to an average



of some \$125 billion a year (in 2005 dollars) over the next two decades. Among other things, given the extent to which the effectiveness of current-generation weapons platforms can be improved through the addition of new precision-guided munitions, sensors, and communications equipment, it seems likely that the U.S. military could afford to take a more selective approach to modernization than it is projected to do under current plans.

Third, the Defense Department will have to begin making some cuts in the size of the military. Changes to the military compensation and personnel management systems could help slow the rate of growth in military compensation. And some substantial reductions in acquisition programs should be possible. However, depending on efficiency savings and cuts in acquisition programs to generate all of the savings the Defense Department is likely to need to make its plans affordable would be risky and unrealistic. Some reductions in force structure will also likely be needed.

It will clearly be impossible to reduce the size of the Army and Marine Corps while U.S. forces are heavily engaged in Iraq and elsewhere. However, some cuts in the Navy and the Air Force may be possible in the near to medium term. Looking back historically, the U.S. military has often used cuts in the size of the military to help it finance its modernization plans. The result has been that the U.S. military has become progressively smaller over time, but nevertheless much more modern and effective.

Fourth, the U.S. military must be transformed to more effectively and cost-effectively meet current and future security challenges. In addition to scaling back some existing modernization plans and force structure elements, the U.S. military must increase its investments in other areas that offer the promise of more cost-effective capabilities. More than anything else, perhaps, this QDR must attempt to better define, and resource, those areas.



# Future Wartime Scenarios for Defense Planning

**Dr. Michael E. O'Hanlon**  
**Senior Fellow in Foreign Policy Studies**  
**The Brookings Institution**

*The following is an edited transcription of  
Dr. O'Hanlon's opening remarks.*

Thank you, it's nice to be here. Steve did a great job talking about budget realities and pressures, and I know Ron is going to do the same thing in a minute on the Navy. So let me take the liberty of doing something slightly different, and especially because we're at the Naval War College, which is known historically for thinking big thoughts and thinking the future. And we're at a time where it's very hard to do that with the QDR, because we have too much pressure from the Iraq and Afghanistan missions. If I did not have these two fellow panelists doing such a good job with the immediate issues of force structure, personnel, and modernization, I would feel obliged to do the same myself—and following Michèle, who's done a great job as well.

But I want to lay out some of the scenarios we should not forget about as we think about the post-Iraq period in our military force structure and force planning. And I don't suppose that these issues or these scenarios are going to be the main things on planners' minds in this particular QDR. But perhaps your service in speaking to a crowd that's mostly Navy—perhaps the Navy will continue the tradition it's maintained for so long of being able to do a little bit of that, in the sense that you're not quite as involved in the day-to-day drudgery in Iraq. I know you're still playing an important role there and in Afghanistan, but somewhat less intensively than the ground forces in particular; and so in a way we're depending on you, and I want to encourage the process and try to help provoke it a little to keep thinking about longer-term issues as we deal with the immediacy of the current operations.

So what I'm going to do in my remaining eight minutes is a clockwise tour of Eurasia. And I want to throw out six or eight scenarios, about one minute apiece, that I don't have detailed force structure recommendations for in terms of how to fight them or how to deal with them; but I think they're the sort of scenarios we need to start at least getting on our intellectual radar screen. I don't expect they're going to guide the QDR in any detail this time around. But for one thing, just for example, we need to have some sense about how large a ground force capability we think we'll need after Iraq as we wrestle with the debate about whether to increase the size of the Army now or not. I do support increasing the size of the Army now, above and beyond where it's already being increased by the current Pentagon, but I think when you go through that intellectual exercise, you need to have some image about what scenarios may occur after Iraq before you decide to make this kind of important decision. So let me again do this quick tour.

I'm going to start with Russia and the Baltic states, work around to Siberia, Korea—not so much the current Korea civil war problem, but the long-term challenge of China and a reunified Korea—Indonesia, collapsed Indonesia, Taiwan Strait, South Asia, and the Persian Gulf, all in the seven minutes I have left. So this is going to be as much opinion as analysis obviously. But let me just throw a few on the table.

First of all, I don't believe that we need to worry or should worry any longer about Russia retaking the Baltic states—not because the scenario is totally crazy, but because even if it happened, I don't think it would be our smartest strategic choice to try to reverse it, at least not in a direct

military way. There's just too many things stacked up against us geographically. And while we might be able to prevent that invasion, when dealing with a nuclear power like Russia, I think we'd be better advised to think about the longer-term sorts of tools we used in the Cold War. That's all I'm going to say about that. We can come back to it if you want, although ever since Paul Wolfowitz stepped down as under secretary of defense for policy in January 1993, I don't think this scenario has been very much at the center of Pentagon planning anyway. So maybe we don't need to spend too much time on it. But as you think about the future, you've obviously got to be creative and open-minded. If there's one thing the last four years taught us, it's don't assume you won't fight in some funny faraway place just because nobody has been planning to fight there for quite a while. Afghanistan should have corrected us of that potential misimpression three and a half years ago.

Now I want to go around to an Andy Marshall favorite, speaking of long-term thinkers. A Chinese invasion of Siberia—and this scenario—again, these scenarios really aren't totally crazy when you think about the expansion of NATO, because we have already added the Baltic states to NATO, and if we also add Russia someday, as a number of individuals advocate, that would mean an Article Five commitment to its defense. In other words, if Russia someday comes into NATO, you would have to talk about the possibility of an Article Five commitment to defend Siberia from a Chinese invasion pursuing the resources of that area. And so we've seen NATO do things that wouldn't have been thinkable even a short time ago, like what I just mentioned, and so we do have some Article Five commitments we wouldn't have expected to have with some of the small states, the former Warsaw Pact states. We may see that extended, and we may also someday see Russia in NATO.

Okay, what if China decides to go and grab Siberia, which only has six million Russians, after all, and it seems a little bit surprising that Russia should hold onto this land. Andy Marshall thinks that—and he's talked about this scenario—is one that might govern some of our longer-term thinking. Well, I think that the chances of this scenario occurring are very low, and again, when I put on my Kissinger mind cap, I say—the realist in me says that's too difficult of a scenario to plan for. It's not the strategic place we want to pick a fight with China, even if that conflict should occur. It's not a very likely scenario. But to the extent you want to do any planning about it, I would say think about that as a scenario where you respond asymmetrically by blockading China, by putting embargoes on China, not by counterinvading. I think it's too hard militarily.

So I would not recommend that U.S. ground forces be sized to take back the Baltic states from Russia. I would not be recommending that we have ground forces large enough to protect Siberia from a Chinese invasion, and nor would I recommend that we have ground forces large enough to protect or reunify Korea from China in some hypothetical scenario in 2015 or 2020. I don't think China has a realistic claim on Korea. I don't think it's going to be able to justify seizing Korea. I think the cultural and historical differences are too great. And while I hope we maintain a strong security alliance with Korea even after eventual reunification, which I very much hope for someday, I don't think we have to plan on that particular scenario. There are other scenarios that could involve China that I'm about to get to that I think are much more credible and the more appropriate way for us to think about our future planning in East Asia.

Okay, so I've thrown out three scenarios that I don't want to do. But here are a few that I think we do have to be able to conduct.

It's no surprise to people in this room that Taiwan Strait scenarios are very difficult, very important, and have to be more visible and more central in our force planning. And this is true even if, like me, you think that China is making tremendous progress liberalizing, handling itself very well in the international arena for the most part. And even if you're more nervous in some ways about Taiwan's behavior in the future than China's—even if you feel that way, as I do, you still

have to recognize the possibility that something could spin out of control here and we could wind up very plausibly in various kinds of conflict scenarios in the Taiwan Strait. And we've all been reading the newspapers in the last few days, the antiseccession law passed in the PRC—we know full well that this could happen. So how should we handle it if indeed it did happen?

Well, my own back-of-the-envelope for planning exercises tell me you're going to need somewhere in the range of four to six aircraft carrier groups, probably dozens of additional surface combatants, probably a couple dozen submarines—quite a large force to handle this. But apart from the force planning implications—and by the way, I was honored to be involved in a debate with two of your colleagues here in the journal *International Security* on some of the dynamics that could result in this kind of a conflict, and what kind of losses we could incur, and so forth. I think that kind of debate needs to be more visible. And Ronald O'Rourke and others have sometimes kept this debate alive, but they haven't had much company in the U.S. defense planning apparatus. We need to have this kind of scenario at least as visible in our future thinking as Iraq and North Korea have been for the last decade.

On the Taiwan Strait, I think we have to think hard about not only how big of a military we need for that region but what kind of war planning do we do, and how do we escalate enough to assure dominance and victory but escalate slowly enough to prevent great-power, all-out war against China. This is a huge dilemma. There has not been nearly enough literature on this in the public arena. We really could fight this war—again, as I think people in this room appreciate, but most of the country does not. I think if you ask most Americans, “Could we really fight China over Taiwan?” they would think of it as some scenario that sounded familiar from their history books, from Eisenhower, but would be surprised to hear it's a real concern today. And yet there have been a few missiles launched here and there in the last ten years, but really nothing to worry too much about. There's so much economic integration. Isn't that going to prevent war?

Well, I think those who study this region know that there is at least a modest, and hopefully 5 percent—no more than that—5 percent, 10 percent chance, but still a real chance, that war could occur. And if it does, there is no way that the United States will stand by and watch Taiwan be conquered. We may take our time getting involved. We may not fire our first shot right away. We may try to convince China to back down. If it's a blockade scenario, we may allow Taiwan to take a few losses on its own before we get involved. There are a lot of questions about the dynamics of this scenario, but no doubt in my judgment that we would ultimately make sure that Taiwan was not conquered. And therefore we have to think through these scenarios, not only in terms of force structure and force planning, but in terms of the dynamics of how you use force and how you escalate. Not nearly enough has been done on that. Unfortunately, I can't do more now.

Indonesia—it really could collapse. And if it collapses, it could raise questions about how we protect the Indonesian Straits—but even more importantly, how we help a very important Muslim country deal with the threat of terrorism internally, make sure it remains a beacon for a sort of moderate version of Muslim church-state relations, and a sort of a symbol of how the Muslim world can be part of the broader international community. This is not a country we want to see fail. There's just too much riding on the line at a time of such broad structural conflict between the U.S. and Islamic worlds. If something happened in that country and the government wanted our help and needed our help and asked for our help, and large parts of its territory were destabilized, I think we'd have to seriously consider getting involved.

But as much as that scenario troubles me, the one that really worries me in terms of large-scale stabilization missions has to do with Pakistan. Actually, there are two scenarios here, and many of you have thought about this as well, but let me still remind you, and let's keep these on our radar screens as we do long-term defense planning. There is the issue of what if Pakistan itself collapses and its nuclear weapons are no longer easily vouched for. How do we make sure that

a central government that could be losing its grip on that country is able to keep control of its nuclear arsenal? If Pakistan begins to collapse, it will be the most serious direct threat to the United States and its security at least since the worst of the Cold War; maybe since the Civil War, I believe. In an age of radical terror, with so much of that radical terror network existing in this part of the world, loose nukes in Pakistan—even though it's ten thousand miles away—would be the most direct threat to the American homeland perhaps since the Civil War. I believe this would be absolutely a no-brainer—that we will—if there's any intelligent way to get involved, we will. We will have to. There's no two ways about it.

There's another scenario that could occur in South Asia, which is a war over Kashmir, India and Pakistan coming up to the brink of nuclear exchange, finally agreeing to international mediation, and maybe an international trusteeship for Kashmir where a NATO-led force might provide the stabilizing capability until heads could cool and we could have a referendum.

One last scenario and I'll stop. And this one again is a fitting one to talk about at the Naval War College. And I was talking about it with my very kind escort from the airport this morning, who's been thinking about it himself, which is the scenario about Iran blockading or blocking the Strait of Hormuz. What does it take for the U.S. Navy and the U.S. Air Force and perhaps other parts of the military to deal with that scenario, and how do you prevent all-out war from escalating out of that? And here I think we obviously have a somewhat smaller potential adversary to deal with than in the China case, but a part of the world that's economically even more important to us, where we would have to act very quickly—in the Taiwan Strait you may be able to be slightly more patient in how soon you break the blockade. In the case of the Persian Gulf, the potential adversary may be smaller, but the time urgency is greater. And I think this is a scenario that some people like Andy Krepinevich have written about, but it hasn't really stayed on our radar screens very much as we've been so focused on the War on Terror in the last few years.

So the overall theme of this, whether you're talking about new NATO members that used to be part of the Soviet Union or potentially future NATO members, Korea, Taiwan Strait, Indonesia, Pakistan, Iran—there are a lot of scenarios, some of which are maybe too speculative and not sufficiently threatening directly to American interests that we have to be able to get involved if necessary, others of which we might very well. And we've got to maintain the tradition of the Naval War College and keep some of these longer-term ideas on our radar screen even as we deal with the near-term immediate demands of Iraq and Afghanistan and the War on Terror. Thanks.



# Ten Potential Navy-Related Issues for the QDR

**Ronald O'Rourke**  
**Naval Analyst**  
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**the Library of Congress**

*The following is an edited written statement summarized by  
 Mr. O'Rourke in his opening remarks.*

Thank you for the invitation to speak here today. I should note at the outset that the views expressed here are my own and not necessarily those of CRS or the Library of Congress.

With regard to the Navy, a fundamental condition, going into the QDR, is that there is no current, officially approved, unambiguous plan for the future size and structure of the Navy. That's been true since at least February 2003, if not earlier, and the Navy's latest testimony on potential Navy force structure ranges does relatively little to change the situation, since the ranges are fairly broad, their status as official DoD planning goals is uncertain, and the composition of these force ranges by ship type is not specified.

\*For the Navy, ambiguity concerning required numbers of Navy ships provides time to resolve uncertainties concerning the applicability of new technologies and the Sea Swap concept to various kinds of Navy ships. Navy (and DoD) officials may also find this ambiguity convenient because it permits them to speak broadly about individual Navy ship-acquisition programs without offering many quantitative details about them—details which they might be held accountable to later, or which, if revealed now, might disappoint Members of Congress or industry officials. This ambiguity may also, however, make it difficult at some point for Navy officials, in conversations with the Office of the Secretary of Defense (OSD), to defend programs for procuring Navy ships in certain total numbers or at certain annual rates because OSD officials might view alternative total numbers or annual rates as sufficient for maintaining a Navy that falls somewhere within the broad ranges of total numbers of ships that Navy officials have presented in their testimony.

Ambiguity concerning required numbers of Navy ships may make it difficult, if not impossible, for Congress to conduct effective oversight by reconciling desired Navy capabilities with planned Navy force structure, and planned Navy force structure with supporting Navy programs and budgets. With the middle element of this oversight chain expressed in only general terms, Congress may find it difficult to understand whether proposed programs and budgets will produce a Navy with DoD's desired capabilities. The defense oversight committees in recent years have criticized the Navy for presenting a confused and changing picture of Navy ship requirements and procurement plans.

Ambiguity concerning required numbers of Navy ships may make it easier for industry officials to pour into broad remarks from the Navy or DoD their own hopes and dreams for individual programs. This could lead to excessive industry optimism about those programs. Ambiguity concerning required numbers of Navy ships can also cause business-planning uncertainty in areas such as production planning, workforce management, facilities investment, company-sponsored research and development, and potential mergers and acquisitions.

Although ambiguity in Navy force-structure planning can be convenient in some ways for Navy and DoD officials, it can also pose potentially significant difficulties for them, and for Congress and industry as well, which I can talk about in more detail later, if you like.\*

When asked about required numbers of Navy ships and aircraft, Navy and DoD officials have argued that under capabilities-based planning, numbers of ships and aircraft are not as important as the total amount of capability represented in the fleet. That's true insofar as what you're after is a Navy that can do what you want it to, and not simply one that happens to include a certain number of ships and aircraft. But that's not the same as saying that a Navy with a desired set of capabilities cannot be described as one having certain numbers of ships, aircraft, and other things.

While current force-planning issues may take some time to work through, eventually it should

become possible to translate desired Navy capabilities into numbers of platforms and systems. Those numbers might be expressed as focused ranges, and they might change over time as missions and technologies change, but to argue indefinitely that capabilities cannot be translated into platform and system numbers would be to argue, in effect, that the Navy cannot measure and understand the capabilities of its own platforms and systems.

Consequently, one outcome to hope for in the QDR would be a new, officially approved, unambiguous plan for the size and structure of the Navy.

With that as an introduction, I want to quickly go through 10 potential issues for the QDR relating to the Navy. Not all of them may be addressed in the QDR, and some might be framed differently, but in one way or another, issues like these will likely be in the air while the QDR is underway.

One potential issue is how the 1-4-2-1 planning framework from the last QDR, and the more recent 10-30-30 goal, should be modified, particularly in light of the new “4 challenges” framework for strategic thinking.

For the Navy, the 4 in the 1-4-2-1 and the 10 in the 10-30-30 are particularly important. If one or both are relaxed, force structure requirements for maintaining day-to-day forward deployments could be reduced, perhaps substantially, which could mean that, for some categories of ships, force-structure requirements for warfighting could become the longer pole in the tent.

A second potential Navy-related issue for the QDR is how much of the Navy’s planned cost savings should be used to finance Army end-strength increases and the costs of the Army’s new modular transformation plan.

The services, as an incentive for generating savings, are supposed to be able to keep them for their own purposes. But in a situation of finite DoD resources, if one service—the Navy—is planning to achieve significant cost savings, of which a lot would come from significantly reducing end-strength, while another service—the Army—is facing end-strength pressures and a need to finance its new modular transformation plan, then what should DoD planners do?

The question could become: How much of the Navy’s cost savings could be transferred to the Army without undermining the incentive for the services to find ways to reduce costs?

A third potential issue for the QDR is how to implement the new sea basing concept for launching, conducting, and supporting expeditionary operations ashore. This concept has attracted a lot of interest, but its details are still being worked out, and fully implementing the concept could prove to be an expensive proposition. Decisions on this issue could affect requirements for Navy amphibious and MPF(F) ships, and for a number of other things, including possibly some Air Force and Army programs.

A fourth potential issue is how new approaches for basing, crewing, and deploying Navy ships, such as Sea Swap, will affect requirements for Navy forces. Changes in this area could reduce, perhaps substantially, the number of ships needed to maintain a given number forward-deployed on a day-to-day basis in areas like the Western Pacific and the Persian Gulf. The degree to which the Navy will implement these proposals, is not yet clear, because some issues need to be resolved. If these measures are applied widely, though, force structure requirements for maintaining day-to-day forward deployments in some cases could again drop below force structure requirements for warfighting.

A fifth potential issue concerns the Navy’s role in the overall missile defense architecture. MDA has said that its missile-defense architecture will emerge over time through a process of spiral development. But that could put Navy officials in the position of having to estimate what its

eventual role in the architecture might be. If so, and if the Navy underestimates its eventual role, then performing its missile-defense duties could make it difficult for the Navy to perform other missions at desired levels. Conversely, if the Navy overestimates its eventual role, then this could result in expenditures that might have been better spent on other things.

A sixth potential issue concerns how the global war on terrorism and irregular conflicts such as insurgencies and civil wars might affect requirements. There has been much discussion of how this issue might affect the Army and Marine Corps, but less discussion of how it might affect the Navy.

A seventh issue is how to balance requirements for nearer-term operational priorities against the requirements associated with the downstream possibility of significantly improved Chinese maritime military capabilities. Nearer-term operational priorities have led to a focus on certain Navy capabilities, but preparing for a potential confrontation years from now with significantly improved Chinese maritime military forces might require putting more focus on other kinds of Navy capabilities. Given the potential lead times involved, having these other capabilities in place at a future date may require making certain kinds of investments today. If so, the issue would be to find the optimal mix of investments for meeting nearer-term requirements while also positioning the Navy adequately for this downstream possibility.

An eighth potential issue is how new technologies will affect Navy capabilities in the future. In the past, new technologies have often been used to increase the capability of individual Navy platforms, which has often permitted a smaller number of on-station platforms to perform a given set of missions. Some analysts, however, believe that today's new technologies argue in favor of moving to a more distributed Navy force that includes a larger number of smaller ships. This is the position taken by the Office of Force Transformation in its recent report on alternative Navy fleet platform architectures.

A ninth potential issue is whether the mix of ship designs that the Navy currently plans to acquire is affordable in the numbers that might be desired, particularly given the recent growth in shipbuilding costs. If the mix is deemed not affordable, one or more of the designs might need to be modified, dropped, or replaced with less expensive alternative designs. Some options for less expensive designs for various kinds of ships have recently emerged.

And a tenth potential issue is how concerns for the industrial and technological base should be factored into the analysis. Navy plans could affect the number of shipyards that will be regularly involved in Navy shipbuilding, the number of public- and private-sector yards involved in overhauling and repairing Navy ships, the ship design and engineering base, and supplier firms. For the Navy at least, concerns for the industrial and technological base could add considerable complexity to a situation already made complex by the previous nine issues.

Thank you, and I look forward to the discussion.



## Panel III Questions and Answers

Moderator [Dr. Watman]: Let me open up for questions, again reserving the right to categorize your questions and sequence them in a way that keeps us more or less on point. Questions, please.

**Q. I want to compliment Michael O’Hanlon for imaginatively thinking about the future, however unpleasant that subject may be [inaudible]. But I’d like to pose two questions [inaudible]. First, of the seven scenarios you mentioned, six will involve either [inaudible]. In one case you have a scenario with two [inaudible] states, one that would be presumably adversary, one that would [inaudible]. Do you have any clever ideas about how to [inaudible]? Second [inaudible] what do we do if? What do you recommend that we might think about doing over the next ten to [inaudible] years to make [inaudible]? Are there other ways to deal with it rather than having to [inaudible]?**

Moderator: All right, let me see if there’s anyone else who would like to build on those questions, yes.

**Q. [inaudible] talk about NATO, you didn’t see NATO doing anything militarily. So as we look at our force structure, should we really worry about interoperability, with those allies or any others, because that kind of drives some of the modernization or things that we might choose to do or not do?**

Moderator: Okay, I think there’s critical mass here. We can begin. Michael, I’ll give you the first crack at that, and then I suspect perhaps some of the other panelists might want to make an incision into this stuff, too.

A. [Dr. O’Hanlon] I didn’t want to make my scenarios too easy, so I—unfortunately for me, you didn’t make your questions very easy, either. I think that, first of all, on the issue of the fact that there are all these nuclear adversaries—one thing is that I’m prepared essentially not to use military force in response to a couple of them, partly because of what you’re talking about, although it’s also the conventional balance and the geography, even to the point of essentially ignoring Article Five commitment to the Baltic states and basically saying we’ll handle that. Of course Article Five isn’t quite so formulaic as to say you must deploy this many divisions. But I would propose a more asymmetric response there, and also if China were to invade Siberia. That’s part of how I deal with the fact that some of these scenarios are too hard.

Another way is to say in regard to Taiwan Strait scenarios, we have to think very hard about escalation control. And frankly one of the reasons why I want to get this debate about Taiwan Strait issues into the more public eye is that I’m worried that if we give this job to twenty of the smartest people in this room, which I think is basically how the problem has been handled so far, then it’s viewed primarily in military terms. How do you make sure you win? And the way you make sure you win, of course, is to make sure that you destroy the other side’s assets before they can use them, and so you get into all the dynamics about the need for preemption and rapid escalation that worried us in the Cold War. I’m not sure that’s always the smartest way to handle Taiwan Strait scenarios, because of the risk that, of course, China will itself escalate, and we could even wind up in a nuclear exchange. So part of my concern with the Taiwan Strait scenario is

figuring out ways to control escalation. And I don't have great answers. I just want to raise the subject at the moment. If we were talking about just that, I might try to say a few more words. But I really would just be content to see the subject given the due I think it requires.

In regard to some of the other scenarios, let's say—I'll just mention one more, South Asia—what I'm hoping in the event of a Kashmir scenario like the one I mentioned is a permissive environment. We basically have the two protagonists agree that they need help, and a trusteeship with NATO perhaps stabilizing the operation. So there is a NATO role there, for example. It would be preferable to seeing them continue to fight. In Pakistan I would only intervene militarily if I thought it could work. There are a lot of scenarios for collapsing Pakistan where we couldn't get enough force there in time to make a difference. So I'm envisioning a scenario where the central government and the military are gradually fractionating, but still holding together enough that a relatively modest number of Western forces, and hopefully some allies, too, could get in there fast enough to make a difference.

On the issue of—so there's a couple of thoughts on allies. And one last point I would make in regard to NATO is as many of these scenarios as we can get substantial help with, the better. And I certainly think the South Asia and Indonesia stabilization missions that I've put forth would benefit greatly from having a lot of allied help. I don't know how much is realistic to expect, but I would certainly like to see more.

I'd also like to see us get serious about this program President Bush proposed expanding last year, and the Congress said no. It was building on a Clinton initiative to help African militaries train and equip their forces much better. It was begun as the ACRI program in the Clinton administration. Mr. Bush changed it to ACOTA—an even uglier acronym than some of you have thought up in your careers—Africa Contingency Operations and Training Assistance Program. And then I think he appropriately proposed increasing the funding to a hundred million a year. And then it didn't happen. He didn't fight for it very hard. Congress didn't come through. So I like to see our thinking about allies extend not just to NATO but to some of the smaller countries and less developed countries that are going to have to handle security problems in places like Congo, Somalia, et cetera.

And I guess that's my last point, and I'm sorry to go on in such length, but to wrestle with [faculty], your last question about how do we think more proactively about shaping the international environment, a word that Dr. Flournoy and others gave us in the late nineties, and I think very appropriately so, how do we use military force in other than a reactive way. There are obviously a lot of dimensions to this. One of the things I would propose is that in certain conflicts, like in Africa, we think of clever ways to help mitigate the severity of the conflict without having to use our own forces. And that's where this training and equipping program, I think, could be very useful.

That's one part of the answer. Another part of the answer is obviously to think enough and talk enough about Taiwan Strait scenarios. Frankly, we keep our Taiwan East friends a little bit scared that these scenarios can get out of control, because I think all of us in this room, or at least almost all of us, certainly admire Taiwan and think that it's a great friend of the United States and a great model of new democracy. But it's also a little scary that Taiwan's new democratic dynamics tend to stir and stoke the pot of independence more than I think are prudent or necessary when the country is already 95 percent independent for all intents and purposes. We don't need a great-power war over that last 5 percent. And Taiwan would be doing us a great disservice to cause it. And I think Taiwan needs to be reminded of that, just as China also needs to be



reminded that we would never assent to Chinese control over Taiwan, especially as long as China remains an autocracy. And the Taiwanese people don't want reunification.

So every one of these problems has to be handled separately, as you well know. But that's the sort of thing that reminds us whether it's the 1-4-2-1 or the shape and engage, shape, deter, respond concepts that we've used before. We do need to keep thinking about the shaping and the long-term proactive uses of our military, so I'm glad you put that on the table as well.

- A. [Mr. O'Rourke] Just two points to go over briefly first, for I think the question was in the context of NATO, and I agree that the parts of the world we're talking about, some of these scenarios possibly occurring are a very, very long way from the NATO countries. Those countries are finding it difficult to project significant amounts of military power as far as the Persian Gulf. But if you're talking about things in South Asia or Southeast Asia, that's even further away, in which case the allies that we might most be interested in in terms of ensuring interoperability are countries like Australia, which has shown some willingness to take on a larger regional security role in that part of the world. And the second point on interoperability in terms of navies, the U.S. Navy's shift toward a more network-centric way of operating poses an interoperability challenge. If other navies invest in compatible technology, that could actually lead to higher levels of interoperability than our Navy has enjoyed in the past with other navies. However, if these other countries choose not to invest in this network-centric technology, or choose to invest in incompatible technology, it could drive an even larger wedge between our Navy and other navies that we've operated with in the past. So the advent of network-centric warfare can create a bit of a fork in the road concerning our future potential for operating effectively and efficiently—not just symbolically—alongside the navies of other military forces of other countries.

Moderator: Thank you, Ron. It really would be ironic, wouldn't it, folks, to have—and I'm not pronouncing one way or the other, but I think it would be a great historic irony to have undergone the rigors of the Cold War, which was an intensely nuclear time, and to get through it amazingly enough, partly by good fortune and partly by good policy and restraint, only to enter into a nuclear crisis over matters like Taiwan with an upwardly mobile China. That would be something I don't think any of us really thought carefully about. Now this is this issue of the scenarios, and we're talking here about the future strategic environment and what that means for forces and the like. This is a rich vein, and I'd like to know if there are other questions that people have focused in this area that they would like to raise right now. Yes, please.

- Q. It seems to me that perhaps one of the things that we're fighting structurally is half of the President Eisenhower admonition about being aware of the industrial complex. It seems often in the last twenty or thirty years, that our force structure decisions have been to match up with high-end gear that we buy. You know, I think I read in the paper this morning that the F/A-22 is now going to do an antisubmarine warfare mission, and we're paying three hundred million dollars for an airplane. It seems to me that somebody now is going to feel duty-bound to come up with force structure and strategy options to be able to use that rather than figure out what we need to do and then resource it.**

Moderator: I'm going to ask Mr. Kosiak to comment on that. And then I'll turn to Mr. O'Rourke second, please.

A. [Mr. Kosiak] Well, I think that's a real concern. I mean, I think it's often phrased as sort of—and oversimplified so that we're still sort of buying Cold War weapon systems when we face a very different kind of world. I think that is one of the fundamental questions we have to deal with and the QDR should be dealing with, and we have to deal with over the longer term, is what kinds of new systems really fit into the world we're in now and what kinds of systems do not. I think TACAIR is sort of the classic case where we may have substantial overkill compared to what we probably need, and yet there are other mission areas like long-range precision strike, where we probably have less capability than we need in the future. So I mean that's a fundamental question that we have to grapple with.

Moderator: Steven, can you grapple with what I think is the nub of the gentleman's question, which is the extent to which the industrial or technology tail is wagging the national dog?

A. [Mr. Kosiak] Yes, that's hard to say. Again, that's sort of in oversimplified terms. People can look at Congress and say that Congress is sort of this military-industrial complex, and Congress being part of that and preventing us from maybe doing what we really want to be doing and should be doing. I guess it's hard for me to say, you know, looking at it, who's sort of in the driver's seat in all this and who's—I mean, when I talk to industry people, for example, they seem to be very eager to try to please the services and try to come up with ideas that the services are going to find attractive. So I guess the bottom line—I'm asking this very incoherently, but I think the bottom line is, it's hard to sort of tell who's in the driver's seat on all of these decisions. So I think it's—I think you can find weapon systems; it's just they are clearly grasping to try to come up with some new mission that sounds like it will be an important part of the future force, and maybe that's not really the case. But sort of systematically looking at it, systemically looking at it, I think it's tough, for me at least, having viewed these issues and debates for twenty years, to really say what's driving these decisions.

Moderator: Ron?

A. [Mr. O'Rourke] Just a couple of points—there's clearly a concern in Congress right now with Navy shipbuilding, the amount of it, and also the lack of clarity in Navy planning or in the stability of Navy shipbuilding plans. I think it's a long-standing dynamic for the supporters of weapon systems, wherever they might be, to always survey the landscape and see whatever missions there might be that might help justify that weapon. And you can see various parties in various settings engaging in that. And that kind of activity may have become more intense in recent years because of the downturn following the end of the Cold War and the procurement part of the defense budget, and also because we're in a sort of uncertain or less clear strategic planning environment. That gives people a lot of maneuvering room to make a lot of different arguments. I'm not concerned per se about people coming up with new arguments for justifying weapon systems that are already in the pipeline, because some of those arguments might be good. And the Navy has a long and successful tradition of designing and building ships that turned out to be very effective over their lifetimes for missions that their designers did not anticipate. So I'm not against the idea of people hunting around for missions and putting them up on the table and saying that Platform X might actually do this kind of mission. What I would hope is that once those arguments are on the table, they get a good vetting and they're not just accepted simply because somebody said them. So we've seen some mission drift in some of the arguments for various Navy or other DoD platforms in recent years. And I agree with your observation on that. I don't necessarily see it as a bad thing, as long as there is a rigorous process for determining or assessing the validity of those arguments.

Moderator: Do you want to follow up? Do you believe your question was as answered as it could be at this point?

**Q. [inaudible].**

Moderator: All right. I'd like to volunteer one other hypothesis, which is that, at least from my own observations, it seems to me—and I haven't systematically investigated this, but I think it's quite plausible to think that requirements per se actually do not originate much from the industrial part of the military-industrial complex. I mean, obviously people talk to one another. But I don't think the services' felt need for a particular weapon system arises very much from industry rushing in to explain what they're capable of building. Where I do think, however, industry becomes very influential and important is that once a program is in place, once a requirement has been identified and the process of choosing the builder is in train and especially after it is in train, at that point I think weapons programs become remarkably stubborn and difficult to influence in big ways. I mean, certainly you can reduce them and so on. And there, obviously, industry is active, I would suspect, in helping make that as difficult as it can be. Now, yes. Is your question on the scenario and the strategic future kind of issue?

**Q. The question I'm going to ask is not intended to be antagonistic towards U.S. but just how the world looks at U.S. So you painted the scenario—this question is for Dr. Michael O'Hanlon. You painted the scenario where the nukes fall into the hands of terrorists, and the incalculable consequences of this sneaking into U.S. So if you go back into history in 1945, it was U.S. which invented the nuclear weapons. And that triggered off acquisition by one country after another. So as to speak, it was U.S. which let out this genie from the bottle. And this genie seems to be out of control and haunting U.S. much more than any other country. So with this kind of a background, in your future defense planning of the strategic environment which you talked about, is that also an element of introspection to say that? Stop inventing any more spectacular weapons, because sooner or later they will come back to harm you more than the benefit that they do in the short term? Also, as to speak, do you intend to stop putting on the cork from the bottle.**

Moderator: Thank you. Michael?

A. [Dr. O'Hanlon] I thought you were going to collect a few questions at a time so I could dodge that one by the end. Thank you for the challenging set of thoughts. A couple of things: first of all, as you may know, I did not describe India as a potential adversary. I actually think India is a great partner, and the last two U.S. administrations and the last couple of Indian governments have made great progress, I think, in getting this relationship in the direction that it should be moving, because these are two of the world's great democracies. I am worried about Kashmir, but not in the sense of wanting to fight India over it, simply in the sense that if we ever got to a scenario—this is not quite directly in response to your question. I'll get to that. But if we got to a Kashmir scenario where the two sides felt that they were so close to nuclear war that there was no plausible way to reduce the risk except to accept some concept of trusteeship—sort of the way southern Sudan is now accepting this concept of postponing a debate on independence for a period of time to let things cool. That kind of concept may or may not be useful. Scenario planning, of course, doesn't have to predict the future. It simply needs to acknowledge a plausibility. And that's what I was trying to do. As to what kinds of weapons we need to avoid developing in the future, I share your worry. By the way, I was thinking of this issue this morning. I know a lot of us probably read the obituary of Hans Bethe, one of the last great nuclear physicists, who just passed away this week. And certainly he wrestled with the question of whether the thermonuclear weapon was inevitable after the

atomic bomb was invented, and these are very hard questions. To me, the big issue for the future has to do with biological and microbiological research and to what extent are we running a risk here, that, in the pursuit of advanced biological treatments of a civilian nature for various maladies, that we wind up developing technology that can be dangerous. There is, I think—at least theoretically, you can make a very strong argument that we should just stop microbiological research, because the danger of developing tools that will allow for extremely dangerous pathogens over the next hundred years is extremely high. But frankly, I don't know how to make that argument in a convincing way. But it's the only thing I can think of that gets to your question. This is the big new area where technology is going to create capabilities that we may not be glad we created in fifty or a hundred years. But frankly, I don't know what to do about it.

Moderator: Yes.

**Q. More for the Air Force and the Army than the Navy, probably—is there a plan for the joint use of assets between the active and reserve components, the same way on some of the large-platform Air Force transports, the same planes are used by the active component and at other times by the reserve, so that if we have the sine wave of sort of force deployment that was talked about by one of the speakers yesterday that you'd be able to have everybody trained on the same model of the system rather than the complaint that we often hear that the reserve components are using outdated equipment?**

Moderator: Thank you for your question, but let me invoke my rule about trying to stay on theme. I've got it written down. And—but let's work through the themes that we've got, and at the end of that I'd be glad to return to your point. Are there any other questions here, relating to the strategic future issue as articulated by Michael O'Hanlon or more expansively? Yes?

**Q. . . . It's hardly forty days that I have come from Pakistan, and there was no signs of collapse of Pakistan in near future—unless U.S. desires it. [inaudible]. My question is that Pakistan has been frontline in light of U.S. in the history member of a foreign war. Thereafter it was left alone and all these things happened. Again, knowing the global War on Terror, Pakistan is again frontline alive. We have almost our seventy-five thousand troops in areas fighting our own people. Our ships are there in the coalition maritime campaign plan. We are sharing intelligence as well. Still why Pakistan is projected negatively? This is the first part. And the second part is, what are the indicators that has led to the formulation of this scenario of the collapse of Pakistan in the future other than the joining hands with you? Thank you.**

A. [Dr. O'Hanlon] Very nicely put. Thank you for the question and the statement, and I think a lot of Americans—and I know myself—have been very grateful for Pakistan's remarkable help in the last several years, and so again, letting out scenario—this is a delicate business. It's part of why it's better to have a think tank person do this than government officials, because as a think tank person you just speak for yourself, and if you get into a little hot water, that's part of intellectual life in the United States or in any country like yours. But if you do it as a government official, you sound like you're disrespecting your ally. I think as a scenario planner, you have to be capable of doing both things at the same time, acknowledging the excellent state of this relationship right now and the progress we've made and the important work we're doing together, but still recognizing that there is some danger. Things could go badly. I don't think it would be through deliberate policy in Islamabad. I think it would be through potential tension and discord within your own country, from certain parts of your population. My colleague at Brookings on this issue, Steve Cohen, assures me that the chances of

Pakistani collapse are small, and I'm glad to hear that you agree. And I certainly tend to myself. But I don't think they are so small as to put this scenario off the agenda. That's the simple answer that I'm just saying—to me the scenario looks like it's 5 percent plausible, and that's 5 percent that's worrisome enough that we should think about it. And again, the scenario as I laid it out was potentially in a situation where in ten years you, sir, are the chief of staff of the Pakistani army or military, and you say, please come help us; we are trying to hold on; we just need a little bit of help; we have a little bit of a problem that we can't quite address; we have a lot of capability; we can do most of it on our own, but we could use a little bit of help in the short term, and it interests all of us to get this problem right and get the country restabilized before things spin out of control. So again, my scenario, even though it's meant to be a worst case, and science fiction, if you like, assumed the assent of the Pakistani government as a necessary prerequisite to the deployment of American forces. So that may not be a complete answer to your question. It may not satisfy you. But that's the way in which I think about this scenario.

Moderator: Thank you, Michael. Let me ask the audience now to direct your collective attention, please, to the other two themes—the one being what I think is a very dire message that Steven Kosiak delivered on the future, at least of the defense program as currently envisioned or at least as represented on paper, and the other being the future of the Navy both in the context of the QDR but more generally. So we'll take questions along those lines for now, please. Questions? Yes?

**Q. Mr. Kosiak, you talked about efficiency in the defense budget. And you talked a little bit about outsourcing. Could you give us recent examples of how your organization looks at successful outsourcing in view of the fact that government financial statements don't really meet an audited standard? And also in view of the fact that companies like Kellogg, Brown and Root are being spun off by Halliburton in view that they're not profitable.**

A. [Mr. Kosiak] Well, I start off by saying we actually don't do a lot of work in this area. The reason I talked [about] the military personnel system a little bit was because I did just recently do a report on that. I think in general, though, most of the studies still show that the Department of Defense can save some significant money by doing more outsourcing, and that's really holding competitions between public-sector, infrastructure workers and private-sector workers. And most of the studies seemed to indicate that the savings are possible in the order of 20 percent to 40 percent. I think there are some real questions, but there's a lot of debate over the number of people you can actually outsource. I mean at the high end there's a million personnel in active duty and civilian Department of Defense workers who work in infrastructure-related functions. Some people argue you could consider outsourcing all of those. I think that's absurd. But some people make that argument. I think what we're talking about now is more in the range of several hundred thousand workers. If it's at that level, and you can get 20 percent savings or something, you're probably talking about savings on the order of five or six billion dollars a year over the long term. I think that's probably doable. But I'm not sure that—I think all of these areas where you're looking for savings in terms of improving efficiency, at least in terms of sort of business operations, are prudent things in general that we should be pursuing. I think they are not a cure-all. I mean, we're not going to eliminate the plans-funding mismatch by becoming more efficient in that sense, in the sense of sort of a narrow business sense. But I think it is an area where studies do continue to show that we can make some significant savings.

Moderator: Question from here, please?



**Q. I'm going to be leaving this fine institution tomorrow, but I would like to ask one question here. Ever since Ross Perot gave us his death by view graph or whatever it was in his run, I've been a little skeptical of statistical approaches. But nevertheless the slide that we saw yesterday kind of showed that if you view defense expense as a function of gross national product that we may not be in as bad a situation as you describe, in fact that we're only approaching the fraction that we spent during the Reagan buildup. So I guess my question is when you—what is the better metric? Is it looking at it in terms of inflation-adjusted dollars, or is it a fraction of GDP that's more useful in trying to determine what is a good fraction of our treasure that we can afford to put towards national defense. Thank you.**

Moderator: Great question.

**A.** [Mr. Kosiak] That's a very good question. I think I did mention in my eleven minutes that, you know, we are a rich country, and we are spending now—even with the cost of the war, I think we're spending a little over probably 4 percent of GDP on defense. Back in the—and that's on average what we spent in the 1990s even. So we're not even talking about the peak of the Cold War. The peak of the Cold War or the Vietnam War was about 10 percent of GDP. At the height of the Reagan buildup it was 6.5 percent of GDP. If you look in that sense—and I think that is a useful measure and probably the best measure of what it is in terms of a burden on the economy—there's no question about it. Defense is much less of a burden today than it was ten years ago or certainly twenty or more years ago. So there's two ways of sort of looking at defense spending. One is in terms of share of GDP. And another one is in terms of in absolute real dollars, what are we spending? We're spending a lot in real dollars today, but the economy is much bigger. It's probably five times bigger than it was in the 1950s, for example. So I mean I think in that sense it is affordable. I think, though, where you realistically sort of run into some problems is, the fact of the matter is, if you look at historical trends—and then these are just historical trends in sort of precedent, and things could turn out differently in the future. But if you just look at the history of the U.S. defense budget, during the Cold War, even though the economy was growing a lot and we faced a threat that was growing, the level of resources spent on defense stayed relatively constant. It sort of fluctuated up and down, but it was around three hundred and seventy-five billion dollars a year. So the fact that the economy grew didn't mean we were spending more and more on defense. If you look out into the future, I think you have to—the historical precedent would suggest that we're not going to—even though you could in theory afford it, it's not going to happen. Also, we are in the, I think the eighth year now of a buildup in defense spending; the '06 request will be the eighth year of a buildup. That's very long by historical standards for the U.S. I mean, the longest sort of continuous period was about ten years, from '75 to '85, more or less continuous period of buildup. And then it was a significant decline after that. So again, if you look sort of at historical precedent, it just doesn't seem likely that defense money is going to continue to grow, even though in theory it could. Then, on top of that, you have to look at where are we in terms of the fiscal and demographic pressures compared to where we were throughout much of the Cold War. And we're in a very different place. I think one of the most telling statistics is that during most of the fifties, sixties, seventies, eighties, even up until recent years, we had four or five workers, people in the workforce, for every retiree. That, over the next twenty or thirty years, is going to shift to having about two and a half workers for every retiree. And it's also not a—I think we talk about the retirement of the baby boomers, and so this is a sort of tidal wave that happens, and then it goes away. It doesn't. I mean this is basically because it isn't just the baby boomers. It's the fact that people for decades now have not had nearly as many kids, and people today just don't have as



many kids. We're talking about sort of a permanent shift from having four or five workers per retiree to having two or maybe three per retiree. And on top of that you have this enormous growth in healthcare cost that is also causing a lot of pressure. So I mean there is no right answer to how much can we afford to spend on defense. I think you're absolutely right that in theory you could afford to spend more. I think if you step back and sort of look at what are the fiscal and demographic pressures that we face and sort of what's historical precedent, I think the best way to bet is that we're not going to continue to grow at those rates in the future.

**Q. This is the disadvantage of sitting on the front row. I'd like to follow that question in an area that's more specific that you highlighted, Mr. Kosiak. The personnel cost piece—and you were talking about the enormous amount that we spend in military compensation. And the Navy, as we looked at the military personnel in training, individual training cost, we were estimating—because we don't know how much it is—around 65 percent of what we spend goes into recruiting, retaining, developing our human capital. And one of the notions that the CNO, our chief, has embraced—indeed, our secretary . . . as well—very, very strong advocates—is getting at the efficiencies that are available if we are able somehow to allow market mechanisms to drive the apportionment, the identification of apportionment of our talent where it is best leveraged. What I'm talking about now—I don't know if you are aware of this in these terms—is Sea Warrior that lets the market come in and play. And in the '03 National Defense Authorization Act—we were permitted in an experimental fashion to begin moving monies away from the standard bonus system that we know does not work. It's very ineffective, very expensive and ineffective. And in compensation in general to a more tailored approach through assignment incentive pay. I don't know if you're aware of those terms, but working in the compensation field—has any of the work you've done encouraged you that that is a potential answer in terms of efficiency, if we can extrapolate from our early experiments, early success into a system that actually moves towards a free market mechanism for identifying and apportioning resources in the human capital arena?**

**A.** [Mr. Kosiak] Well, let me address that a bit. I would preface it by saying that I am really a budget analyst, and I'm not a personnel management expert. And that's a huge field with a lot of very competent people in it. So I can't directly talk, I think, to your points. But I would say a couple of things. I mean, I think—in general, the way the military has to go is to have more targeted increases, target more of their increases in pay in the future, because what has been the case for decades, probably has always been the case, but has certainly been the case in recent years, even though overall pay levels are quite high by historical standards, you still have significant pockets of underpay in the military. I think if you're going to make this more affordable—you're going to have to find ways of targeting those increases in pay, and whether it's bonuses—I mean the devil is sort of in the detail in this thing, because it's not a simple thing to do. I mean, for example, [people] have talked about spending more money on bonuses. That creates problems and has limitations. People have also talked about establishing a new pay table that has sort of a third dimension that doesn't look just at longevity and rank but also your specialty. That also has problems. So I'm not sure what the right answer is, and what you talked about sounds like that's sort of another interesting variant that might work. And it may also be something that is service-specific, that you can do things differently in different services because the services operate differently. But I think in general just as an overarching conclusion—this is largely driven by the analysis I did. I think

we need to look at ways to focus our increases, our pay raises more on—compensation increases more probably on cash rather than deferred kinds of noncash benefits. That seems to be more cost effective. And also that we have to target on those particular specialties or classes of personnel in the military that are the most difficult to recruit and retain. And I think no one is talking here about—I mean, I think the military is still going to need to have substantial increases in pay over time. But if you can make even a slight difference in sort of holding down overall compensation costs—I mean, you know, 0.5 percent a year in military compensation cost could by twenty years from now—and I've been working in this field for twenty years, so looking out twenty years doesn't seem insane to me anymore—that's ten or twenty billion dollars more in 2025 that you would have to spend on procurement or something else. And that's a big chunk of money for procurement. So I think if we can make some kind of incremental changes maybe along those lines, that that would be important.

Moderator: Yes, in the back please.

**Q. I'm certain that the hair was rising on the back of the neck of most of the naval officers listening to Mr. Kosiak speaking—I suspect with many of the Air Force officers as well, when he talked about making cuts in both the Navy and the Air Force to pay for the OPTEMPO problems with the Army with current operations going on now. Not to minimize or trivialize that problem, that certainly is there and exists and is acknowledged. But the concern is twofold. One is that certainly in the Navy, and I suspect in the Air Force, there's no lack of OPTEMPO and PERSTEMPO issues in those services, due to the current commitments as well. In fact, I would say the FRP is actually exacerbating that problem. Fleet Response Plan. And the second is, they seem to be shortsighted in actually going opposite to where the defense transformation is going, when you consider that particularly the Navy is going to be your most expeditionary force, and has been and continues to be, when you talk about being able to plug and play, as they like to say these days. I realize there's not a question in that, but I'd be interested in some comments from the panel.**

Moderator: Like Jeopardy, you can sort of stick a question mark at the end of it, I think. And before we heap this on Steven, even though he threw the grenade, let me ask if either of the other two panelists would like to comment on this question. And then I will ask Steven to comment.

**A.** [Mr. O'Rourke] Well, in the spirit of trying to get things started, I'll return to a point that I made in my opening presentation, that the Navy under Admiral Clark has been engaged in a huge efficiency drive. Admiral Clark is attempting to drive costs out of the system in every way he can think of. And the Navy, I think, is probably doing more in that regard right now, and has been for the last few years, than the other services. And the issue it raises is, what do you do with the savings? I think the Navy embarked on this efficiency drive largely in the hopes that it could rotate those savings into its own investment programs and help pay for its own transformation and its recapitalization. But we are in a situation now where, as a practical matter, DoD budgeters are under a lot of pressure to make decisions that, whether implicitly or explicitly, have the effect of transferring some portion of those savings to meet near-term needs that are strongly aligned with Army operations right now. And for me that raises the question of how much of a service's savings can you transfer to another service without all of the services getting the message that their savings initiatives may not pay off for them and for their own programs the way they originally hoped. We first faced this issue, as far as I can recall, in the early nineties when the Navy generated some internal savings and they were transferred to one or more of the other services. The Navy felt burned at the time and

basically said never again. Well, that didn't turn out to be the case. The Navy has, as I just mentioned, attempted to do that again over the last few years, and we are conducting an experiment right now to see how well that can work and what kind of messages the services receive in instances where their savings are transferred in certain amounts to the other services. I don't think that the answer has to be zero, that you can't transfer any without endangering the incentive to save, but at some point above zero, I think you get into that kind of a question. And I'm not sure where that line is.

A. [Dr. O'Hanlon] I'll just say briefly that I agree with Ron that the Navy and the Air Force shouldn't be punished, but I also have to take the opportunity to make one point, which is, as much as I admire the great sacrifice of your service and the Air Force, the comparison right now in OPTEMPO frankly is overwhelming in the favor of the ground forces. They are working, in my judgment, simply way too hard. You guys always work too hard. They are working unconscionably too hard. As you well know—you know the numbers. I don't need to repeat them, but sending back the same units to Iraq repeatedly that have already been there—these people are not only doing a year in a hostile combat theater and risking their lives, they're becoming strangers to their own families, because they're going back to Iraq a second time after just a few months at home. I have utmost admiration for everyone in the military. I think everybody in the Navy is working very hard today as well. But in terms of where the marginal resource goes right now, I don't mean to suggest the Navy should be punished. But to the extent we have any marginal additional resources or to the extent we can migrate some money out of some of the modernization accounts into some of the ground force force structure and end strength accounts, I think we owe it to the soldiers and Marines who are doing so much in Iraq right now. And again I say this with no disrespect and with complete admiration for the level of effort right now of the Navy and the Air Force. But it's the ground forces that are hurting. They are getting crushed by this mission. They are working, in my opinion, in a way that's unconscionably hard. And rather than talk about it in terms of stealing from Peter to pay Paul, I'd rather suggest that at least for now the country as a whole does need to simply find the added resources to make the Army larger, and if there's not a way to do that by reducing some of the Navy and Air Force and Army and Marine Corps modernization programs, we simply need a larger top line. But in summary, it's the ground force OPTEMPO right now that I think is really an emergency that needs to be addressed in our military planning.

A. [Mr. Kosiak] I actually think—when I spoke briefly in my presentation, I don't actually think I did make the case that they should be shifting money to the Army, although I think one can make that case. Actually what I was saying was that if you simply look at the cost of each of the service's plans, they are—the budget levels are unlikely to be there to support those plans. That is, I think, the best guess. I mean, if you just sort of look historically and look at where we're headed in terms of politics and the fiscal problems we have and the demographic problems we have, I think it's just unlikely that the level of resources are going to be there to support those plans. So really the option is—again, you make the decisions as rationally as you can up front, relatively efficiently, or you make them on an ad hoc basis over time, relatively inefficiently. So I think it's just—it's not an easy decision, but I mean—I think if you're looking realistic, realistic budget levels is probably a decision you have to make. The other thing I would just say—I think there is sort of a dilemma here. There's a tension here between, on the one hand I think you do want the services to be able to keep at least some significant portion of the savings they get, both because sort of on fairness grounds, but also because I think that's where you want to encourage the services to look for savings, and I think they are in the best position to find those savings. And I think if they don't have that incentive, they're obviously not going to be as likely to find those savings. On the other

hand, this is all about the QDR that we're talking about today, or long-term planning. Obviously part of long-term planning is deciding, are you going to shift—have things change? Are you going to shift resources from one mission to the next, to another, in which case, obviously, you have to make those kinds of decisions? You know, some of those decisions are going to benefit some services more than the others.

Moderator: Our time is getting short, folks. And I want to direct your attention to the number of really provocative questions that Ron O'Rourke posed specific to the Navy, and there are certainly a lot of Navy blue and Marine green uniforms out there. I'm not trying to ignore the other services. But are there questions, as we close, about the future of the Navy? These can be the issues that Ron raised or others.

**Q. I was wondering if the panel could address if the QDR can or even should connect the dots from a focus review. I think the guest speaker this morning mentioned four focus points providing capabilities-based recommendations as opposed to programming recommendations and then still coming up with what the structure should look like—the force structure, given numbers and that sort of thing?**

Moderator: [inaudible].

**Q. Yes, sir, this dovetails into that exactly, the context of sea basing. And the question I have is, sea-basing concept, depending on where you're looking, ranges from modest growth and expeditionary amphibious warfare to something much larger than that, i.e., OIF without Kuwait kind of scenarios. In the context of the four new security environments, I'd like to know the opinion, specifically from Mr. O'Rourke, but the rest of the panel, on where you think the sea-basing concept should fall to address those four environments from a force structure strategic future of the Navy perspective.**

Moderator: It's really a great question.

A. [Mr. O'Rourke] Okay, there were two questions. One is the QDR, and I think the spirit of the question was the hope for capabilities-based results and whether those could be translated, I think, into programs or force structures. As I said at the outset of my presentation, my own hope is that the QDR, among other things, can result in an agreed-upon, officially approved, unambiguous plan for the future size and structure of the Navy. The absence of this kind of a plan for more than two years now is beginning to cause considerable difficulties. It's causing difficulties for Congress in conducting effective oversight of Navy programs and budgets, which is something that ultimately does benefit the Navy even if the Navy doesn't enjoy the process at the time; and it's causing considerable difficulty for industry. Businessmen have to make decisions about workforce management, production planning, facilities investment, company-sponsored R&D, and even mergers and acquisitions. And in the context of an uncertain planning environment about what kind of a Navy we might be building toward in the future, they have no basis for making those decisions with any security. It also may serve as a disincentive for the parent firms of these shipyards or these other Navy suppliers to invest or make certain key investments in modernizing those facilities.

In terms of sea basing, you ask a really interesting question, I think, about how sea basing should be defined in the context, I think you asked, of the four challenges. Was that your question? I'm simply going to say I don't know at this point. The sea-basing concept is very interesting. There's a certain rationale behind it about avoiding the need for establishing intermediary land bases that are fixed and possibly very vulnerable to

attack. The most important point for me about the sea-basing concept right now is how undefined it is and how much variation there currently is in what it may wind up looking like, and that means it is a source. It is one of the sources right now of uncertainty in Navy planning, because it can affect requirements for at least two different categories of ships, if not also for surface combatants as well as a third category. I don't know exactly how I would match up sea basing against those four challenges. I'd have to admit that I'd have to sit down and think about that for a while. But that question and many others are the kinds of things that Navy and Marine Corps leaders, in conjunction with DoD officials, I think, need to work their way through as soon as they can, and I would hope that those issues also could be closed, at least to some degree, as a result of the work done in the QDR, because until we get those answers, we're not going to have a firm basis for planning amphibious ships or maritime prepositioning ships, or possibly things like naval surface fire support requirements that can affect requirements for surface combatants. So I think your question is well taken. I wish I had a better answer for you at this point, but I think Congress needs to hear a better and more defined answer as soon as one can be made available by DoD.

Moderator: Thank you very much, Ron. We're inside of one minute to go. So I will declare that this casserole is sufficiently cooked at this point. I want to apologize to the gentleman who asked the question about the active reserve issue. If you can nail down one of these guys after the conference is over, by all means take your best shot. My compliments to you all for your questions, and thank you very much to the panelists.





# Closing Remarks

**Rear Admiral Jacob L. Shuford, USN**  
**President, Naval War College**

Let me commend the panelists for a superb discussion of many of the key issues that are now on the table as elements of the very important Quadrennial Defense Review. And I also want to thank all of the previous speakers and panelists for leading us through a very enlightening series of explorations of a tremendously complex subject.

Rich, you and your committee did a great job in putting this conference together, and I look forward to seeing the published report of the event, which will allow us to share some of this week's insights with a much broader audience.

The dialogue we conducted over the past two days has been useful in framing the issues, and I believe that we all leave here far better prepared to continue the debate in the classroom and in our workspaces, and, as I indicated yesterday, to have an impact on the strategic conversations that are vital to arriving at enlightened decisions.

My thanks go out, again, to the Naval War College Foundation for their support of this event. I am sure that Bill Ruger would be pleased to see that we are putting his generous bequest to good use.

Thank you all for coming. I wish you a safe journey home, and I look forward to seeing a number of you at tomorrow's graduation ceremony!



# Participant Biographies

## Jacob L. Shuford

Rear Admiral, U.S. Navy  
President, U.S. Naval War College

Rear Admiral Jacob L. Shuford was commissioned in 1974, from the NROTC program at the University of South Carolina. His initial assignment was to USS *Blakley* (FF 1072), where he served in the Operations department.

In 1979, following a tour as Operations and Plans Officer for the Commander, Naval Forces Korea, he was selected as an Olmsted Scholar and studied for two years in France at the Paris Institute of Political Science. He also holds master's degrees in Public Administration (Finance) from Harvard and in National Security and Strategic Studies from the Naval War College.

After completing department head tours as Operations Officer in USS *Deyo* (DD 989) and in USS *Mahan* (DDG 42), he commanded USS *Aries* (PHM 5). His first tour in Washington included assignments to the Staff of the Chief of Naval Operations and Office of the Secretary of the Navy.

Rear Admiral Shuford returned to sea in 1992 to command USS *Rodney M. Davis* (FFG 60), Battle "E" winner and part of the USS *Independence* Battle Group. He assumed command of USS *Gettysburg* (CG 64) in January 1998, deploying to Fifth and Sixth Fleet operating areas as Air Warfare Commander (AWC) for the USS *Enterprise* Battle Group. *Gettysburg* played a key role in the Adriatic during the Kosovo crisis and the Persian Gulf during Operation *Desert Fox*.

Returning to the Pentagon and the Navy Staff (N86), he directed the Surface Combatant Force Level Study (SCFLS), establishing numbers and types of combatant ships required by the Navy. Following this task, he was assigned to the Plans and Policy Division (N3/N5) as Chief of Staff for the Navy's Roles and Missions Organization, coordinating and defending the Navy's positions in response to the national-level Commission on Roles and Missions of the Armed Services (CORM). He finished his most recent Pentagon tour as a Division Chief in J8—the Force Structure, Resources, and Assessments Directorate of the Joint Staff—where he worked on Joint Warfighting requirement issues, primarily in the Theater Air and Missile Defense mission area. His most recent Washington assignment was to the Office of Legislative Affairs as Director of Senate Liaison.

In October 2001 he assumed duties as Assistant Commander, Navy Personnel Command for Distribution (the Navy's Head Detailer). Responsible for the assignment of more than 370,000 Navy men and women, Rear Adm. Shuford played a lead role in the conceptual development and initial implementation of Project Sea Warrior. In August 2003 he assumed command of the *Abraham Lincoln* Carrier Strike Group and served as Third Fleet's Syndicate Lead and Operational Agent for Theater Air and Missile Defense. He assumed command of the Naval War College in Newport, Rhode Island, on 12 August 2004. He is the fifty-first officer to serve as President.

His personal awards include the Defense Superior Service Medal, the Legion of Merit (five awards), the Bronze Star, the Meritorious Service Medal (three awards), the Navy Commendation Medal (three awards), and the Navy Achievement Medal.

## Dr. James Jay Carafano

Senior Research Fellow, Defense and Homeland Security, Davis Institute, The Heritage Foundation

Dr. Carafano is one of The Heritage Foundation's leading scholars in defense transformation, military operations and strategy, and homeland security. Recognizing that the war against terrorism will be a protracted conflict, his research focuses on developing the national security that the nation needs to secure the long-term interests of the United States—protecting its citizens, providing for economic growth, and preserving civil liberties.

An accomplished historian and teacher, Dr. Carafano was an assistant professor at the U.S. Military Academy in West Point, N.Y., and served as Director of Military Studies at the Army's Center of Military History. He also taught military and diplomatic history at Georgetown University and Mount Saint Mary College and served as a fleet professor at the U.S. Naval War College and a visiting professor at the National Defense University.

Dr. Carafano was a member of the National Research Council's Committee on Army Science and Technology for Homeland Security. He currently serves on the National Defense Transportation Association's Security Practices Committee and is a 2005 Senior Fellow at George Washington University's Homeland Security Policy Institute.

### Publications:

- He is the coauthor of *Winning the Long War: Lessons from the Cold War for Defeating Terrorism and Preserving Freedom*. Looking at both history and the current policies for waging the global war on terrorism, this study argues that a successful strategy requires a balance of prudent military and security measures, continued economic growth, and the zealous protection of civil liberties. The book also highlights the ideological dimensions of the struggle, describing how the United States can and must win the “war of ideas” against terrorist ideologies.
- In addition, Dr. Carafano is the coauthor of the textbook *Homeland Security*, published in April 2005 by McGraw-Hill. *Homeland Security* is a practical introduction to everyday life in the new era of terrorism. Numerous key details are addressed, from roles of first responders and volunteers to family preparedness techniques to in-depth descriptions of weapons of mass destruction. Chapters examine infrastructure protection and business continuity, along with operations, tactics, and weapons of terrorist groups.
- Dr. Carafano was also the principal author of the budget analysis in the 2003 Independent Task Force Report *Emergency Responders: Drastically Underfunded, Dangerously Unprepared*, published by the Council on Foreign Relations. He was also a contributing author to the National Academies Army Science and Technology for Homeland Security 2004 report and codirector of the task force report *DHS 2.0: Rethinking the Department of Homeland Security*.
- His works on military history include *Waltzing into the Cold War*, published in 2002 by Texas A&M University; *After D-Day*, a Military Book Club selection, published in 2000 by the Lynne Rienner publishing company of Boulder, Colorado; and *Made in America: Technology and GI Ingenuity on the Battlefields of Normandy*, forthcoming from Praeger (2006).

## Expertise:

As an expert on defense, intelligence, and homeland security issues, Dr. Carafano has testified before the U.S. Congress and has provided commentary for ABC, BBC, CNBC, CNN, C-SPAN, Fox News, MSNBC, NBC, SkyNews, National Public Radio, and Australian, Austrian, Canadian, French, Greek, Japanese, and Spanish television. His editorials have appeared in newspapers nationwide, including *USA Today*, the *Washington Times*, the *Baltimore Sun*, the *New York Post*, and the *Boston Globe*.

Dr. Carafano joined Heritage after serving as a senior fellow at the Center for Strategic and Budgetary Assessments, a Washington policy institute dedicated to defense issues.

Before that, he served twenty-five years in the Army, rising to the rank of lieutenant colonel. His areas of expertise included military strategy, joint operations, future combat systems, post-conflict operations, and nuclear weapons. During his service, Dr. Carafano served in Europe, Korea, and the United States and was head speechwriter for the Army Chief of Staff. Before retiring, he was executive editor of *Joint Force Quarterly*, the Defense Department's premiere professional military journal.

A graduate of West Point, Dr. Carafano also has a master's degree and a doctorate from Georgetown University and a master's degree in strategy from the U.S. Army War College.

## Dr. Richard N. Cooper

Maurits C. Boas Professor of International Economics, Harvard University

Richard N. Cooper is Vice-Chairman of the Global Development Network and a member of the Trilateral Commission, the Council on Foreign Relations, the Executive Panel of the U.S. Chief of Naval Operations, the Aspen Strategy Group, and the Brookings Panel on Economic Activity. He has served on several occasions in the U.S. Government, as chairman of the National Intelligence Council (1995–97), Undersecretary of State for Economic Affairs (1977–81), Deputy Assistant Secretary of State for International Monetary Affairs (1965–66), and senior staff economist at the Council of Economic Advisers (1961–63). He was also chairman of the Federal Reserve Bank of Boston (1990–92). As a Marshall Scholar, he studied at the London School of Economics, and earned his Ph.D. at Harvard University.

## Recent Publications:

- *Boom, Crisis, and Adjustment* (with others)
- *Macroeconomic Management in Korea, 1970–1990* (with others)
- *Environment and Resource Policies for the World Economy*
- *What the Future Holds* (with others)

## Ms. Michèle A. Flournoy

Senior Advisor, International Security Program, Center for Strategic and International Studies (CSIS)

Michèle A. Flournoy is senior advisor in the CSIS International Security Program, where she works on a broad range of defense policy and international security issues. Previously, she was a distinguished research professor at the Institute for National Strategic Studies at the National Defense University (NDU), where she founded and led the university's Quadrennial Defense Review (QDR)

working group, which was chartered by the chairman of the Joint Chiefs of Staff to develop intellectual capital in preparation for the Department of Defense's 2001 QDR. Prior to joining NDU, she was dual-hatted as principal deputy assistant secretary of defense for strategy and threat reduction and deputy assistant secretary of defense for strategy. In this capacity, she oversaw three policy offices in the Office of the Secretary of Defense: Strategy; Requirements, Plans, and Counterproliferation; and Russia, Ukraine, and Eurasian Affairs. She was awarded the Secretary of Defense Medal for Outstanding Public Service in 1996 and the Department of Defense Medal for Distinguished Public Service in 1998. In addition to two edited volumes, Flournoy has published more than fifty articles on a variety of international security issues. She holds a B.A. in social studies from Harvard University and a Master's in international relations from Balliol College, Oxford University, where she was a Newton-Tatum Scholar. She is a member of the Aspen Strategy Group, the International Institute of Strategic Studies, and the Executive Board of Women in International Security. She is a former member of the Defense Policy Board and the Defense Science Board Task Force on Transformation.

### **Expertise:**

Defense strategy and policy; war on terrorism; U.S. and coalition military operations; post-conflict reconstruction; nuclear, chemical, and biological weapons.

### **Publications:**

- Chapter 6, "Dealing with Demons: Enhancing Justice and Reconciliation," with Michael Pan; Chapter 7, "Interagency Strategy and Planning for Post-Conflict Reconstruction"; and Chapter 9, "Training and Education for Post-Conflict Reconstruction" in *Winning the Peace*, Robert C. Orr, ed. (Washington, D.C.: CSIS Press, July 2004).
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- *Nuclear Weapons After the Cold War: Guidelines for U.S. Policy*, Editor (New York, N.Y.: HarperCollins College Publishers, 1993).

## Dr. J. Michael Gilmore

Assistant Director for National Security, Congressional Budget Office

Before joining the Congressional Budget Office (CBO) in 2001, J. Michael Gilmore was the Deputy Director for General Purpose Programs in the Office of the Secretary of Defense, Program Analysis and Evaluation. In that position, he was the principal staff adviser to the Secretary of Defense for issues regarding U.S. general-purpose forces and supporting programs. In his eleven years in the Office of the Secretary of Defense, he began by analyzing strategic defense and military satellite communications programs and later, as part of the Cost Analysis Improvement Group, directed teams of analysts in preparing estimates of the costs of defense programs. Prior to his career in government, he was a defense analyst for McDonnell Douglas Corporation and a scientist at Lawrence Livermore National Laboratory, where he performed research on nuclear fusion.

The CBO National Security Division analyzes budgetary issues related to national defense, international security, and veterans' affairs. Its research focuses on defense budgets, military forces, and weapon systems, the demand for and supply of military personnel, the military's industrial and support facilities, and U.S. foreign assistance programs. The division examines the budgetary effects of proposed legislation, the cost-effectiveness of current and potential defense programs, and the impact on the private sector of legislative initiatives concerning defense.

## Mr. C. Lawrence Greenwood

Deputy Assistant Secretary, International Finance and Development,  
Bureau of Economic and Business Affairs, Department of State

C. Lawrence "Larry" Greenwood, Jr., joined the Foreign Service in 1974 after graduating from the Fletcher School of Law and Diplomacy. After working on domestic politics and trade issues in Manila from 1977 to 1979, he headed the economic section in the U.S. Embassy in Senegal from 1979 to 1981, where he worked on a range of development issues. During postings in the State Department's Economic Bureau from 1981 to 1985, he worked on international antitrust issues and the Third World debt crisis, including staffing of the U.S. Government's work on Paris Club debt rescheduling.

Greenwood studied Japanese from 1985 to 1987 and served in the Economic Section of the Embassy in Tokyo from 1987 to 1991, where he was responsible for trade and structural reform talks that dominated the U.S.-Japan agenda at that time. He headed the combined Economic-Political Section in Singapore, where he helped set up the first permanent U.S. military presence in the city-state and helped handle the infamous Fay caning case.

Greenwood was chief of the bilateral trade office in the Economic and Business Bureau from 1994 to 1996, where he worked on a host of trade issues from Canadian lumber to Japanese autos to global telecommunications talks. He then returned to Japan where, as Economic Minister at the Embassy, he led efforts to open Japan's insurance, telecom, retail, and energy markets and promoted incoming U.S. investment into Japan.

Greenwood became U.S. Ambassador to the Asia Pacific Economic Cooperation Group in 2000 and helped pioneer APEC programs in the area of information technology, structural

reform, anticorruption, microfinance, and counterterrorism. He managed the participation of the President in three successful APEC Summits in Brunei, China, and Mexico.

Greenwood was appointed Deputy Assistant Secretary for International Finance and Development in July 2003, where he has been working on global financial issues, particularly post-conflict assistance in Iraq and Afghanistan.

## **Mr. Steven Kosiak**

Director of Budget Studies, Center for Strategic and Budgetary Assessments

Steven Kosiak is the Director of Budget Studies at the Center for Strategic and Budgetary Assessments, an independent policy research institute established to promote innovative thinking about defense planning and investment strategies for the twenty-first century.

Mr. Kosiak performs research and analysis of defense spending trends, force structure and weapons systems costs, and the budgetary consequences of arms control measures, among other related defense budget issues. He is the author of CSBA's annual budget analysis and contributes significantly to other publications on defense and security issues. His most recent publications include *Analysis of the FY 2000 Budget Request*, *Changing Military Pay and Retirement: Congress Needs to Look Before It Leaps*, *Options for U.S. Fighter Modernization*, and a cost series on the Kosovo War. He is frequently cited in major national news articles and has appeared on network television and radio news programs. Mr. Kosiak contributes editorial perspectives in such professional and public policy journals as the *Bulletin of Atomic Scientists*, *Aviation Week and Space Technology*, *Armed Forces Journal*, and *Defense News*.

Prior to joining CSBA in 1991, Mr. Kosiak was senior analyst at the Center for Defense Information, with responsibility for researching and writing on a wide variety of defense issues. He has worked on Capitol Hill and in the Office of the Defense Advisor at the U.S. Mission to the North Atlantic Treaty Organization.

### **Expertise:**

Defense Budgets and Programs; Military Personnel and Readiness; Modernization Programs and Trends

### **Current Projects:**

Steven Kosiak is the author of CSBA's annual defense budget reports and special budget studies concerning costs and possible savings associated with major acquisition programs, personnel, readiness, force structure, infrastructure activities, and arms control measures.

### **Education:**

Steven Kosiak holds a B.A. from the University of Minnesota, an M.P.A. from the Woodrow Wilson School at Princeton University, and a J.D. from the Georgetown University Law Center.

## Dr. Carnes Lord

Professor of Military and Naval Strategy, Center for Naval Warfare Studies, U.S. Naval War College

Dr. Lord is a political scientist with broad interests in international and strategic studies, national security organization and management, and political philosophy. He has held a number of positions in the U.S. government, including director of international communications and information policy on the National Security Council staff (1981–83), assistant to the vice president for national security affairs (1989–91), and distinguished fellow at the National Defense University (1991–93).

Dr. Lord has taught political science at Yale University, the University of Virginia, and the Fletcher School of Law and Diplomacy, and was director of international studies at the National Institute for Public Policy.

### Publications:

- He is the author of, among other works, *The Presidency and the Management of National Security* (1988) and *The Modern Prince* (2003).

## Dr. David H. McIntyre

Director, Integrative Center for Homeland Security, Texas A&M University

Dr. McIntyre is a nationally recognized analyst, writer, and teacher, specializing in national and homeland security. A thirty-year Army veteran, he spent the past seventeen years designing and teaching national and homeland security strategy for the most senior levels of government. He is the former dean of the National War College and currently teaches homeland security at Texas A&M's George Bush School of Government and Public Service and at the University of Texas.

He recently received the "Silver Star Award," an award for teaching excellence voted by the students of the Bush School and presented by former President George Bush. He also participated in the 2003 Defense Science Board Study of Homeland Security.

As director, Dr. McIntyre oversees and administers the activities of the Integrative Center for Homeland Security (ICHS). The mission of the ICHS is to establish and sustain a university-based homeland security program that integrates the full spectrum of information services, research, development, evaluation, education, training, and field delivery of responder services that leads to a safer and better-prepared society. Dr. McIntyre sees both an external and an internal focus for the Center's efforts. "Texas A&M's people and facilities really are world class in the homeland security arena," he said. "I will help get that word out to the agencies searching for new ideas and high quality research. . . . But beyond that," he noted, "we have a unique opportunity to build the curricula for an entirely new field of study that is going to touch every academic discipline, every citizen, and every American institution in the coming years. . . . My goal is to help faculty and students find ways to put their considerable skills to work improving our security while maintaining our freedom at the same time."

## Mr. Walter Russell Mead

Henry A. Kissinger Senior Fellow in U.S. Foreign Policy, Council on Foreign Relations

Walter Russell Mead is the leading interpreter of the history of U.S. foreign policy and America's role in the world. He is the winner of the Lionel Gelber Prize for his book *Special Providence: American Foreign Policy and How It Changed the World*, and the author of *Power, Terror, Peace, and War*.

### Expertise:

U.S. foreign policy; international political economy; domestic politics; religion and foreign policy

### Experience:

Project director, religion and foreign policy, Pew Forum; project director, Working Group on Development, Trade & International Finance, Phase II; board member, New America Foundation; project director, Study Group on History of U.S. Foreign Policy, Phase II (current); senior contributing editor, *Worth* (current); contributing editor, opinion page, the *Los Angeles Times* (current); president's fellow, World Policy Institute at The New School (1987–97); contributing editor, *Harper's Magazine* (1986–91).

### Selected Publications:

- *Power, Terror, Peace, and War: America's Grand Strategy in a World at Risk* (2004)
- *Special Providence: American Foreign Policy and How It Changed the World* (2001), named as one of ten notable nonfiction books of 2001 by *The Economist* and nominated for the 2002 Arthur Ross Book Award
- *Mortal Splendor: The American Empire in Transition* (1987)
- Articles in *Esquire*, *Worth*, the *New York Times*, *International Herald Tribune*, the *Wall Street Journal*, and *The New Yorker*.

### Education:

B.A., Yale University

### Honors:

Among several honors and prizes, *Special Providence* received the Lionel Gelber Award (which *The Economist* calls “the world's most important prize for nonfiction”) for the best book in English on international relations in 2002. The Italian translation won the Premio Acqui Storia awarded to the most important historical book published in Italian.

## Dr. Michael E. O'Hanlon

Senior Fellow in Foreign Policy Studies, The Brookings Institution

### Expertise:

Arms treaties; Asian security issues; homeland security; Iraq policy; military technology; missile defense; North Korea policy; peacekeeping operations; U.S. defense strategy and budget

## Current Projects:

Defense strategy and budgeting; homeland security; future of arms control; Iraq and North Korea Policy

## Education:

Ph.D. (1991), M.A. (1988), M.S.E. (1987), A.B. (1982), Princeton University

## Background:

*Current Position(s)*: Visiting Lecturer, Princeton University

*Previous Position(s)*: Defense and Foreign Policy Analyst, National Security Division, Congressional Budget Office (1989–94); Research Assistant, Institute for Defense Analyses; Peace Corps Volunteer, Congo

## Languages:

French

## Selected Publications:

- *Defense Strategy for the Post-Saddam Era* (forthcoming, 2005)
- “Iraq without a Plan,” *Policy Review* (December 2004 & January 2005, no. 128)
- *The Future of Arms Control*, with Michael A. Levi (2004)
- *Neither Star Wars nor Sanctuary: Constraining the Military Uses of Space* (2004)
- “Reassessing National Security,” in *Restoring Fiscal Sanity: How to Balance the Budget*, Alice M. Rivlin and Isabel Sawhill, eds. (2004)
- “Gauging the Aftermath,” *The National Interest*, with Adriana Lins de Albuquerque (Summer 2004)
- “The Humanitarian Transformation: Expanding Global Intervention Capacity,” *Survival*, with Peter W. Singer (Spring 2004)
- *Crisis on the Korean Peninsula: How to Deal with a Nuclear North Korea*, with Mike Mochizuki (McGraw-Hill, 2003)
- *Protecting the American Homeland: One Year On*, with Peter Orszag, Ivo Daalder, I. M. Destler, David Gunter, Robert Litan, and James Steinberg (2003)
- *Expanding Global Military Capacity for Humanitarian Intervention* (2003)
- “Clinton’s Strong Defense Legacy,” *Foreign Affairs* (November/December 2003)
- “The Democratic Party and Foreign Policy,” *World Policy Journal*, with Dana Allin and Philip Gordon (Spring 2003)
- “Estimating Casualties in a War to Overthrow Saddam,” *Orbis* (Winter 2003)
- “A ‘Master Plan’ to Deal with North Korea,” *Brookings Policy Brief*, (January 2003)
- “The New National Security Strategy and Preemption,” *Brookings Policy Brief*, with Susan Rice and James Steinberg (January 2003)

## Mr. Ronald O'Rourke

Naval Analyst, Congressional Research Service of the Library of Congress

Mr. O'Rourke is a Phi Beta Kappa graduate of Johns Hopkins University, from which he received his B.A. in international studies, and a valedictorian graduate of the University's Nitze School of Advanced International Studies, where he received his M.A. in the same field.

Since 1984, Mr. O'Rourke has worked as a naval analyst for the Congressional Research Service of the Library of Congress. In that time, Mr. O'Rourke has written numerous reports for Congress on various issues relating to the Navy. He regularly briefs Members of Congress and Congressional staffers and has testified before Congressional committees on twelve occasions.

In 1996, Mr. O'Rourke received a Distinguished Service Award from the Library of Congress for his service to Congress on naval issues.

Mr. O'Rourke is the author of several journal articles on naval issues and is a past winner of the U.S. Naval Institute's Arleigh Burke essay contest. Mr. O'Rourke has given presentations on Navy-related issues to a variety of audiences in government, industry, and academia.

## Dr. Andrew L. Ross

Research Professor, Strategic Research Department, U.S. Naval War College

Dr. Andrew L. Ross is a Research Professor in the Strategic Research Department (SRD) of the U.S. Naval War College's Center for Naval Warfare Studies. From 2002–2004, he was the Director of Studies in SRD. He served as Director of the Naval War College's project on "Military Transformation and the Defense Industry After Next" and during the 2001–2002 academic year served as the Acting Director of the College's Advanced Research Program and as Co-Leader of the College's Strategy Task Group, one of four task groups established to support the Chief of Naval Operations in the global war on terror.

His work with the Strategy Task Group led to a Department of the Navy Meritorious Civilian Service award in September 2002. From 1989 to 2000, Dr. Ross served as first a Secretary of the Navy Senior Research Fellow and then a Professor of National Security Affairs in the College's National Security Decision Making Department, where he taught the College's core course on Strategy and Force Planning. His work on U.S. grand strategy, national security and defense planning, regional security, weapons proliferation, and security and economics has appeared in numerous journals and books.

### Publications:

- Professor Ross is the editor of *The Political Economy of Defense: Issues and Perspectives* (1991) and co-editor of three editions of *Strategy and Force Planning* (1995, 1997, 2000). He is currently writing a book on military transformation.

Dr. Ross has held research fellowships at Cornell, Princeton, Harvard, the University of Illinois, and the Naval War College; he also taught in the Political Science Departments of the University of Illinois and the University of Kentucky. He earned his M.A. and Ph.D. at Cornell University and his B.A., *summa cum laude*, at American University.